UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 31, 2022

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)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock ($0.01 par value)	JKHY	Nasdaq Global Select Market

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 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 ☒ 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	☒	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 ☒

As of January 26, 2023, the Registrant had 72,990,727 shares of Common Stock outstanding ($0.01 par value).

TABLE OF CONTENTS

In this report, all references to "Jack Henry," "JKHY," 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 (the "Exchange Act"). 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," "seek," "anticipate," "estimate," "future," "intend," "plan," "strategy," "predict," "likely," "should," "will," "would," "could," "can," "may," and similar expressions. Forward-looking statements are based only on management's current beliefs, expectations and assumptions regarding the future of the Company, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, those discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022, in particular, those included in Item 1A, "Risk Factors" of such report, and those discussed in other documents we file with the Securities and Exchange Commission ("SEC"). Any forward-looking statement made in this report speaks only as of the date of this report, and the Company expressly disclaims any obligation to publicly update or revise any forward-looking statement, whether because of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

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

	December 31, 2022	June 30, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 25,763**	$ 48,787
Receivables, net	**246,378**	348,072
Income tax receivable	**—**	13,822
Prepaid expenses and other	**127,785**	125,537
Deferred costs	**69,302**	57,105
Assets held for sale	**—**	20,201
Total current assets	**469,228**	613,524
PROPERTY AND EQUIPMENT, net	**203,360**	211,709
OTHER ASSETS:		
Non-current deferred costs	**152,991**	143,750
Computer software, net of amortization	**545,377**	410,957
Other non-current assets	**309,178**	293,526
Customer relationships, net of amortization	**70,179**	69,503
Other intangible assets, net of amortization	**23,167**	25,137
Goodwill	**804,797**	687,458
Total other assets	**1,905,689**	1,630,331
Total assets	**$ 2,578,277**	$ 2,455,564
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	**$ 13,198**	$ 21,034
Accrued expenses	**147,908**	192,042
Accrued income taxes	**31,668**	—
Notes payable and current maturities of long-term debt	**21**	67
Deferred revenues	**214,742**	330,687
Total current liabilities	**407,537**	543,830
LONG-TERM LIABILITIES:		
Non-current deferred revenues	**70,101**	71,485
Deferred income tax liability	**265,019**	292,630
Debt, net of current maturities	**275,000**	115,000
Other long-term liabilities	**49,630**	50,996
Total long-term liabilities	**659,750**	530,111
Total liabilities	**1,067,287**	1,073,941
STOCKHOLDERS' EQUITY		
Preferred stock - $1 par value; 500,000 shares authorized, none issued	**—**	—
Common stock - $0.01 par value; 250,000,000 shares authorized; 104,027,008 shares issued at December 31, 2022; 103,921,724 shares issued at June 30, 2022	**1,040**	1,039
Additional paid-in capital	**564,856**	551,360
Retained earnings	**2,752,212**	2,636,342
Less treasury stock at cost 31,042,903 shares at December 31, 2022; 31,042,903 shares at June 30, 2022	**(1,807,118)**	(1,807,118)
Total stockholders' equity	**1,510,990**	1,381,623
Total liabilities and equity	**$ 2,578,277**	$ 2,455,564

See notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	**2022**	2021
REVENUE	**$ 505,314**	$ 493,896	**$ 1,034,516**	$ 981,952
EXPENSES				
Cost of Revenue	**304,589**	282,825	**602,849**	559,460
Research and Development	**36,561**	29,916	**69,554**	56,670
Selling, General, and Administrative	**56,788**	55,493	**114,013**	106,565
Total Expenses	**397,938**	368,234	**786,416**	722,695
OPERATING INCOME	**107,376**	125,662	**248,100**	259,257
INTEREST INCOME (EXPENSE)				
Interest Income	**1,240**	6	**1,392**	13
Interest Expense	**(3,406)**	(447)	**(4,982)**	(696)
Total Interest Income (Expense)	**(2,166)**	(441)	**(3,590)**	(683)
INCOME BEFORE INCOME TAXES	**105,210**	125,221	**244,510**	258,574
PROVISION FOR INCOME TAXES	**24,435**	29,551	**57,186**	60,791
NET INCOME	**$ 80,775**	$ 95,670	**$ 187,324**	$ 197,783
Basic earnings per share	**$ 1.11**	$ 1.30	**$ 2.57**	$ 2.68
Basic weighted average shares outstanding	**72,962**	73,580	**72,929**	73,798
Diluted earnings per share	**$ 1.10**	$ 1.30	**$ 2.56**	$ 2.68
Diluted weighted average shares outstanding	**73,144**	73,697	**73,141**	73,920

See notes to condensed consolidated financial statements.

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
(In Thousands, Except Share and Per Share Data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	**2022**	2021
PREFERRED SHARES:	**—**	—	—	—
COMMON SHARES:				
Shares, beginning of period	**103,953,128**	103,822,265	**103,921,724**	103,795,169
Shares issued for equity-based payment arrangements	**57,943**	21,101	**70,084**	26,533
Shares issued for Employee Stock Purchase Plan	**15,937**	16,880	**35,200**	38,544
Shares, end of period	**104,027,008**	103,860,246	**104,027,008**	103,860,246
COMMON STOCK - PAR VALUE $0.01 PER SHARE:				
Balance, beginning of period	**$ 1,040**	$ 1,038	**$ 1,039**	$ 1,038
Shares issued for Employee Stock Purchase Plan	**—**	1	**1**	1
Balance, end of period	**$ 1,040**	$ 1,039	**$ 1,040**	$ 1,039
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	**$ 560,034**	$ 527,255	**$ 551,360**	$ 518,960
Tax withholding related to share-based compensation	**(5,174)**	(1,046)	**(6,731)**	(1,998)
Shares issued for Employee Stock Purchase Plan	**2,884**	2,739	**6,686**	6,476
Stock-based compensation expense	**7,112**	6,545	**13,541**	12,055
Balance, end of period	**$ 564,856**	$ 535,493	**$ 564,856**	$ 535,493
RETAINED EARNINGS:				
Balance, beginning of period	**$ 2,707,182**	$ 2,480,574	**$ 2,636,342**	$ 2,412,496
Net income	**80,775**	95,670	**187,324**	197,783
Dividends	**(35,745)**	(33,661)	**(71,454)**	(67,696)
Balance, end of period	**$ 2,752,212**	$ 2,542,583	**$ 2,752,212**	$ 2,542,583
TREASURY STOCK:				
Balance, beginning of period	**$ (1,807,118)**	$ (1,613,202)	**$ (1,807,118)**	$ (1,613,202)
Purchase of treasury shares	**—**	(193,917)	**—**	(193,917)
Balance, end of period	**$ (1,807,118)**	$ (1,807,119)	**$ (1,807,118)**	$ (1,807,119)
TOTAL STOCKHOLDERS' EQUITY	**$ 1,510,990**	$ 1,271,996	**$ 1,510,990**	$ 1,271,996
Dividends declared per share	**$ 0.49**	$ 0.46	**$ 0.98**	$ 0.92

See notes to condensed consolidated financial statements.

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

	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 187,324**	$ 197,783
Adjustments to reconcile net income from operations to net cash from operating activities:		
Depreciation	**24,766**	25,843
Amortization	**68,946**	62,610
Change in deferred income taxes	**(27,611)**	11,573
Expense for stock-based compensation	**14,544**	13,027
(Gain)/loss on disposal of assets	**(7,240)**	240
Changes in operating assets and liabilities:		
Change in receivables	**102,672**	70,468
Change in prepaid expenses, deferred costs and other	**(39,042)**	(39,991)
Change in accounts payable	**(7,696)**	2,995
Change in accrued expenses	**(47,544)**	(35,814)
Change in income taxes	**47,025**	8,439
Change in deferred revenues	**(125,433)**	(119,822)
Net cash from operating activities	**190,711**	197,351
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for acquisitions, net of cash acquired	**(229,628)**	—
Capital expenditures	**(17,376)**	(22,373)
Proceeds from dispositions	**27,885**	38
Purchased software	**(1,027)**	(7,364)
Computer software developed	**(81,046)**	(71,353)
Net cash from investing activities	**(301,192)**	(101,052)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facilities	**365,000**	220,000
Repayments on financing leases	**(205,042)**	(80,065)
Purchase of treasury stock	**—**	(193,917)
Dividends paid	**(71,454)**	(67,696)
Tax withholding payments related to share-based compensation	**(6,731)**	(1,998)
Proceeds from sale of common stock	**5,684**	5,505
Net cash from financing activities	**87,457**	(118,171)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**$ (23,024)**	$ (21,872)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**$ 48,787**	$ 50,992
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 25,763**	$ 29,120

See notes to condensed consolidated financial statements.

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

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

Description of the Company

Jack Henry & Associates, Inc. and subsidiaries ("Jack Henry," "JKHY," or the "Company") is a well-rounded financial technology company. JKHY was founded in 1976 as a provider of core information processing solutions for banks. Today, the Company's extensive array of products and services includes processing transactions, automating business processes, and managing information for approximately 7,800 financial institutions and diverse corporate entities.

Consolidation

The condensed consolidated financial statements include the accounts of JKHY 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, 2022 and 2021, equals the Company's net income.

Allowance for Credit Losses

The Company monitors trade and other receivable balances and contract assets and estimates the allowance for lifetime expected credit losses. Estimates of expected credit losses are based on historical collection experience and other factors, including those related to current market conditions and events.

The following table summarizes allowance for credit losses activity for the fiscal quarter and year-to-date periods ended December 31, 2022, and 2021:

	Three Months Ended December 31,		Six Months Ended December 31,		
	2022	2021	**2022**		2021
Allowance for credit losses - beginning balance	$ 8,030	$ 7,660	$ 7,616		$ 7,267
Current provision for expected credit losses	480	300	960		840
Write-offs charged against allowance	(325)	(227)	(390)		(373)
Recoveries of amounts previously written off	(1)	—	(2)		(1)
Allowance for credit losses - ending balance	**$ 8,184**	**$ 7,733**	**$ 8,184**	**$8,184**	**$ 7,733**

Property and Equipment

Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Accumulated depreciation at December 31, 2022, totaled $461,010 and at June 30, 2022, totaled $454,879.

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 3 to 20 years. Accumulated amortization of intangible assets totaled $1,078,867 and $1,030,800 at December 31, 2022, and June 30, 2022, respectively.

Investments

At December 31, 2022, and June 30, 2022, the Company had an investment in the preferred stock of Automated Bookkeeping, Inc ("Autobooks") of $18,250, which represented a non-controlling share of the voting equity as of that date. The total investment was recorded at cost and is included within other non-current assets on the Company's balance sheet. There have been no events or changes in circumstances that would indicate an impairment and no price changes resulting from observing a similar or identical investment. An impairment and/or an observable price change would be an adjustment to recorded cost. Fair value will not be estimated unless there are identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

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 December 31, 2022, and June 30, 2022, there were 31,043 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,948 additional shares. The total cost of treasury shares at December 31, 2022, and June 30, 2022, was $1,807,118. During the first six months of fiscal 2023, the Company did not repurchase any shares of its common stock.

Income Taxes

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax basis of assets and liabilities. A valuation allowance would be established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefit recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expenses are recognized on the full amount of unrecognized benefits for uncertain tax positions. The Company's policy is to include interest and penalties related to unrecognized tax benefits in income tax expense.

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 ("U.S. GAAP") 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, 2022. 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, 2022, 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 in all material respects the financial position of the Company as of December 31, 2022, the results of its operations for the three and six months ended December 31, 2022 and 2021, changes in stockholders' equity for the three and six months ended December 31, 2022 and 2021, and its cash flows for the six months ended December 31, 2022 and 2021. The condensed consolidated balance sheet at June 30, 2022, 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 and six months ended December 31, 2022, are not necessarily indicative of the results to be expected for the entire fiscal year.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Company has determined there was not a material impact to the Company’s condensed consolidated financial statements as of and for the quarter ended December 31, 2022, as a result of the continuing impact of the COVID-19 pandemic. However, the extent to which the COVID-19 pandemic may impact the Company's future operational and financial performance remains uncertain and difficult to predict. The Company will continue to monitor developments related to the COVID-19 pandemic.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

Not Yet Adopted

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which improves the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to recognition of an acquired contract liability and payment terms and their effect on subsequent revenue recognized by the acquirer. The ASU is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The Company plans to adopt the ASU effective July 1, 2023, and will apply it prospectively to business combinations occurring on or after that date.

NOTE 3. REVENUE AND DEFERRED COSTS

Revenue Recognition

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

Disaggregation of Revenue

The tables below present the Company's revenue disaggregated by type of revenue. Refer to Note 11, 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 December 31,		Six Months Ended December 31,	
	2022	2021	**2022**	2021
Private and Public Cloud	$ 153,130	$ 138,340	$ 302,129	$ 273,982
Product Delivery and Services	58,594	79,499	116,117	131,014
On-Premise Support	78,976	78,372	192,603	188,708
Services & Support	**290,700**	296,211	**610,849**	593,704
Processing	**214,614**	197,685	**423,667**	388,248
Total Revenue	**$ 505,314**	$ 493,896	**$ 1,034,516**	$ 981,952

Contract Balances

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

	December 31, 2022	June 30, 2022
Receivables, net	**$ 246,378**	$ 348,072
Contract Assets - Current	**24,136**	24,447
Contract Assets - Non-current	**68,092**	68,261
Contract Liabilities (Deferred Revenue) - Current	**214,742**	330,687
Contract Liabilities (Deferred Revenue) - Non-current	**70,101**	71,485

Contract assets primarily result from revenue being recognized when or as control of a solution or service is transferred to the customer, except where invoicing is contingent upon the completion of other performance obligations or payment terms differ from the provisioning of services. 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 exist 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 December 31, 2022, and 2021, the Company recognized revenue of $83,145 and $94,862, respectively, that was included in the corresponding deferred revenue balance at the beginning of the periods. For the six months ended December 31, 2022, and 2021, the Company recognized revenue of $159,393 and $166,273, respectively, that was included in the corresponding deferred revenue balance at the beginning of the periods.

Amounts recognized that relate 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 December 31, 2022, 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 $5,654,930. The Company expects to recognize approximately 25% over the next 12 months, 20% in 13-24 months, and the balance thereafter.

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, which are incurred only if a contract is obtained, and customer conversion or implementation-related costs. 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.

Capitalized costs totaled $410,904 and $380,095, at December 31, 2022, and June 30, 2022, respectively.

For the three months ended December 31, 2022, and 2021, amortization of deferred contract costs totaled $34,861 and $32,154, respectively. During the six months ended December 31, 2022, and 2021, amortization of deferred contract costs totaled $76,841 and $67,998, respectively. There were no impairment losses in relation to capitalized costs for the periods presented.

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

For cash equivalents, certificates of deposit, 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 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 current assets is as follows:

	Estimated Fair Value Measurements			Total Fair Value
	Level 1	Level 2	Level 3	
December 31, 2022				
Financial Assets:				
Certificates of Deposit	**$ —**	**$ 1,213**	**$ —**	**$ 1,213**
Financial Liabilities:				
Revolving credit facility	**$ —**	**$ 275,000**	**$ —**	**$ 275,000**
June 30, 2022				
Financial Assets:				
Certificates of Deposit	$ —	$ 1,212	$ —	$ 1,212
Financial Liabilities:				
Revolving credit facility	$ —	$ 115,000	$ —	$ 115,000

NOTE 5. LEASES

The Company determines if an arrangement is a lease at inception. The lease term begins on the commencement date, which is the date the Company takes possession of the property and may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Lease agreements with lease and non-lease components are accounted for as a single lease component for all asset classes, which are comprised of real estate leases and equipment leases. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Since the Company’s leases do not typically provide an implicit rate, the Company uses its incremental borrowing rate based upon the information available at commencement date. The determination of the incremental borrowing rate requires judgment and is determined by using the Company’s current unsecured borrowing rate, adjusted for various factors such as collateralization and term to align with the terms of the lease.

The Company leases certain office space, data centers, and equipment with remaining terms of 1 to 11 years. Certain leases contain renewal options for varying periods, which are at the Company’s sole discretion. For leases where the Company is reasonably certain to exercise a renewal option, such option periods have been included in the determination of the Company’s ROU assets and lease liabilities. Certain leases require the Company to pay taxes, insurance, maintenance, and other operating expenses associated with the leased asset. Such amounts are not included in the measurement of the lease liability to the extent they are variable in nature. Variable lease costs are recognized as a variable lease expense when incurred.

At December 31, 2022, and June 30, 2022, the Company had operating lease assets of $43,743 and $46,869 and financing lease assets of $20 and $65, respectively. At December 31, 2022, total operating lease liabilities of $48,116 were comprised of current operating lease liabilities of $10,246 and noncurrent operating lease liabilities of $37,870. At December 31, 2022, total financing lease liabilities of $21 were all current liabilities. At June 30, 2022, total operating lease liabilities of $51,452 were comprised of current operating lease liabilities of $10,681 and noncurrent operating lease liabilities of $40,771. At December 31, 2022, total financing lease liabilities of $67 were all current financing lease liabilities.

Operating lease assets are included within other non-current assets, and operating lease liabilities are included within accrued expenses (current portion) and other long-term liabilities (noncurrent portion) in the Company’s condensed consolidated balance sheet. Operating lease assets were recorded net of accumulated amortization of $35,636 and $31,006 as of December 31, 2022, and June 30, 2022, respectively. Financing lease assets are included within property and equipment, net, and financing lease liabilities are included within notes payable (current portion) and long-term debt (noncurrent portion) in the Company’s condensed consolidated balance sheet. Financing lease assets were recorded net of accumulated amortization of $295 and $255 as of December 31, 2022, and June 30, 2022, respectively.

Operating lease costs for the three months ended December 31, 2022, and 2021, were $3,029 and $3,327, respectively. Financing lease costs for the three months ended December 31, 2022, and 2021, were $20 and $27, respectively. Total operating and financing lease costs for the respective quarters included variable lease costs of $962 and $441, respectively. Operating lease costs for the six months ended December 31, 2022, and 2021, were $6,088 and $6,759, respectively. Financing lease costs for the six months ended December 31, 2022, and 2021, were $40 and $55, respectively. Total operating and financing lease costs for the respective fiscal year-to-date periods included variable lease costs of $1,890 and $840, respectively. Operating and financing lease expense are included within cost of services, research and development, and selling, general & administrative expense, dependent upon the nature and use of the ROU asset, in the Company's condensed consolidated statement of income.

For the six months ended December 31, 2022, and 2021, the Company had operating cash flows for payments on operating leases of $6,202 and $6,802, and ROU assets obtained in exchange for operating lease liabilities of $2,282 and $1,870, respectively. Operating cash flows for interest paid on financing leases for the six months ended December 31, 2022, and 2021, were $42 and $55, respectively.

As of December 31, 2022, and June 30, 2022, the weighted-average remaining lease term for the Company's operating leases was 72 months and 76 months, and the weighted-average discount rate was 2.59% and 2.58%, respectively. As of December 31, 2022, and June 30, 2022, the weighted-average remaining lease term for the Company's financing leases was 3 months and 9 months, respectively. The weighted-average discount rate for the Company's financing leases was 2.19% as of December 31, 2022, and 2.29% as of June 30, 2022.

Maturity of Lease Liabilities under ASC 842

Future minimum rental payments on operating leases with initial non-cancellable lease terms in excess of one year were due as follows at December 31, 2022*:

Due Dates (fiscal year)	Future Minimum Rental Payments
2023 (remaining period)	$ 5,879
2024	10,696
2025	7,952
2026	7,046
2027	6,265
Thereafter	14,296
Total lease payments	$ 52,134
Less: interest	(4,018)
Present value of lease liabilities	$ 48,116

*Financing leases were immaterial to the quarter, so a maturity of lease liabilities table has only been included for operating leases.

Lease payments include $5,464 related to options to extend lease terms that are reasonably certain of being exercised. At December 31, 2022, there were $6,128 of legally binding lease payments for leases signed but not yet commenced.

NOTE 6. DEBT

Credit facilities

On August 31, 2022, the Company entered into a five-year senior, unsecured amended and restated credit agreement that replaced the prior credit facility described below. The credit agreement allows for borrowings of up to $600,000, which may be increased to $1,000,000 by the Company at any time until maturity. The credit agreement bears interest at a variable rate equal to (a) a rate based on an adjusted Secured Overnight Financing Rate ("SOFR") term rate or (b) an alternate base rate (the highest of (i) 0%, (ii) the Prime Rate for such day, (iii) the sum of the Federal Funds Effective Rate for such day *plus* 0.50% per annum and (iv) the Adjusted Term SOFR Screen Rate (without giving effect to the Applicable Margin) for a one month Interest Period on such day for Dollars *plus* 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The credit agreement is guaranteed by certain subsidiaries of the Company and is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the credit agreement. As of December 31, 2022, the Company was in compliance with all such covenants. The amended and restated credit facility terminates

August 31, 2027. There was $275,000 outstanding under the amended and restated credit facility at December 31, 2022.

On June 30, 2022, there was a $115,000 outstanding balance on the prior credit facility that was entered into on February 10, 2020. The prior credit facility was a five-year senior, unsecured revolving credit facility. The prior credit facility allowed for borrowings of up to $300,000, which could be increased by the Company to $700,000 at any time until maturity. The prior credit facility bore interest at a variable rate equal to (a) a rate based on a eurocurrency rate or (b) an alternate base rate (the highest of (i) 0%, (ii) the U.S. Bank prime rate for such day, (iii) the sum of the Federal Funds Effective Rate for such day plus 0.50% and (iv) the eurocurrency rate for a one-month interest period on such day for dollars *plus* 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The prior credit facility was guaranteed by certain subsidiaries of the Company and was subject to various financial covenants that required the Company to maintain certain financial ratios as defined in the prior credit agreement. As of June 30, 2022, the Company was in compliance with all such covenants. The prior credit facility's termination date was February 10, 2025.

Other lines of credit

The Company has an unsecured bank credit line which provides for funding of up to $5,000 and bears interest at the prime rate less 1%. The credit line expires on April 30, 2023. There was no balance outstanding at December 31, 2022, or June 30, 2022.

Interest

The Company paid interest of $2,724 and $604 during the six months ended December 31, 2022, and 2021, respectively.

NOTE 7. INCOME TAXES

The effective tax rate decreased for the three months ended December 31, 2022, compared to the three months ended December 31, 2021, with an effective tax rate of 23.2% of income before income taxes, compared to 23.6% in the prior fiscal year quarter. The decrease in the effective tax rate was primarily due to a larger excess tax benefit received from share-based compensation in the current fiscal year quarter.

For the six months ended December 31, 2022, the effective tax rate decreased compared to the six months ended December 31, 2021, with an effective tax rate of 23.4% of income before taxes, compared to 23.5% for the same period last fiscal year.

The Company paid income taxes, net of refunds, of $37,213 and $40,687 in the six months ended December 31, 2022 and 2021, respectively.

At December 31, 2022, the Company had $10,214 of gross unrecognized tax benefits before interest and penalties, $9,083 of which, if recognized, would affect our effective tax rate. The Company had accrued interest and penalties of $1,546 and $1,425 related to uncertain tax positions at December 31, 2022, and 2021, respectively.

The U.S. federal income tax returns for fiscal 2019 and all subsequent years remain subject to examination as of December 31, 2022, under statute of limitations rules. The U.S. state income tax returns that remain subject to examination as of December 31, 2022, under the statute of limitation rules varies by state jurisdiction from fiscal 2016 through 2019 and all subsequent years. The Company anticipates potential changes due to lapsing of statutes of limitations, and examination closures could reduce the unrecognized tax benefits balance by $1,500 to $3,500 within twelve months of December 31, 2022.

NOTE 8. STOCK-BASED COMPENSATION

Our operating income for the three months ended December 31, 2022, and 2021, included $7,545 and $6,956 of stock-based compensation costs, respectively. Our operating income for the six months ended December 31, 2022, and 2021, included $14,544 and $13,027 of stock-based compensation costs, respectively.

Stock Options

On November 10, 2015, the Company adopted the 2015 Equity Incentive Plan ("2015 EIP") for its employees and non-employee directors. The plan allows for grants of stock options, stock appreciation rights, restricted stock shares or units, and performance shares or units. The maximum number of shares authorized for issuance under the plan is 3,000. For stock options, terms and vesting periods of the options are determined by the Compensation Committee of the Board of Directors when granted. The option period must expire not more than ten years from the option grant date. The options granted under this plan are exercisable beginning three years after the grant date at an exercise price equal to 100% of the fair market value of the stock at the grant date. The options terminate upon surrender of the option, ninety days after termination of employment, upon the expiration of one year following notification of a deceased optionee, or ten years after grant.

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

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding July 1, 2022	12	$ 87.27	
Granted	—	—	
Forfeited	—	—	
Exercised	—	—	
Outstanding December 31, 2022	**12**	**$ 87.27**	**$ 1,032**
Vested and Expected to Vest December 31, 2022	**12**	**$ 87.27**	**$ 1,032**
Exercisable December 31, 2022	**12**	**$ 87.27**	**$ 1,032**

At December 31, 2022, there was no compensation cost yet to be recognized related to outstanding options. For options currently exercisable, the weighted average remaining contractual term (remaining period of exercisability) as of December 31, 2022, was 3.5 years.

Restricted Stock Unit Awards

The Company issues unit awards under the 2015 EIP. The following table summarizes non-vested restricted stock unit awards as of December 31, 2022:

Unit awards	Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding July 1, 2022	303	$ 166.50	
Granted	124	219.65	
Vested	(91)	167.18	
Forfeited	(13)	187.68	
Outstanding December 31, 2022	**323**	**$ 185.86**	**$ 56,803**

The 124 unit awards granted in fiscal 2023 had service requirements and performance measures, with 82 only having service requirements. The unit awards with only service requirements were valued at the weighted average fair value of the non-vested units based on the fair market value of the Company's equity shares on the grant date, less the present value of expected future dividends to be declared during the vesting period, consistent with the methodology for calculating compensation expense on such awards.

The remaining 42 unit awards granted in fiscal 2023 have performance measures along with service requirements. 17 of these performance and service requirement unit awards were valued at grant by estimating 100% payout at release and using the fair market value of the Company equity shares on the grant date, less the present value of expected future dividends to be declared during the vesting period. The payout at release of approximately half of these unit awards will be determined based on the Company's compound annual growth rate for revenue (excluding adjustments) for the three-year vesting period compared against goal thresholds as defined in the award agreement. The performance payout at release of the other half of these unit awards will be determined based on the expansion of the Company's non-GAAP operating margin over the three-year vesting period compared against goal thresholds as defined in the award agreement. The other 25 performance and service requirement unit awards were valued at grant using a Monte Carlo pricing model as of the measurement date customized to the specific provisions of the Company's plan design. Per the Company's award vesting and settlement provisions, the awards that utilize a Monte Carlo pricing model were valued at grant on the basis of Total Shareholder Return ("TSR") in comparison to the compensation peer group made up of participants approved by the Compensation Committee of the Company's Board of Directors for fiscal year 2023. The Monte Carlo inputs used in the model to estimate fair value at the measurement date and resulting values for these performance unit awards are as follows.

Monte Carlo award inputs:	**Fiscal 2023**
Compensation Peer Group:	
Volatility	**29.4 %**
Risk free interest rate	**2.96 %**
Annual dividend based on most recent quarterly dividend	**$1.96**
Dividend yield	**0.94 %**
Beginning average percentile rank for TSR	**71.0 %**

At December 31, 2022, there was $31,658 of compensation expense, excluding forfeitures, that has yet to be recognized related to non-vested restricted stock unit awards, which will be recognized over a weighted average period of 1.32 years.

NOTE 9. EARNINGS PER SHARE

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	**2022**	2021
Net Income	**$ 80,775**	$ 95,670	**$ 187,324**	$ 197,783
Common share information:				
Weighted average shares outstanding for basic earnings per share	**72,962**	73,580	**72,929**	73,798
Dilutive effect of stock options and restricted stock units	**182**	117	**212**	122
Weighted average shares outstanding for diluted earnings per share	**73,144**	73,697	**73,141**	73,920
Basic earnings per share	**$ 1.11**	$ 1.30	**$ 2.57**	$ 2.68
Diluted earnings per share	**$ 1.10**	$ 1.30	**$ 2.56**	$ 2.68

Per share information is based on the weighted average number of common shares outstanding for the three and six months ended December 31, 2022 and 2021. Stock options and restricted stock units have been included in the calculation of earnings per share to the extent they are dilutive. There were 31 and 25 anti-dilutive stock options or restricted stock units excluded for the three and six months ended December 31, 2022, respectively, and 28 and 23 were excluded for the three and six months ended December 31, 2021, respectively.

NOTE 10. BUSINESS ACQUISITION

Payrailz

On August 31, 2022, the Company acquired all of the equity interest in Payrailz, LLC ("Payrailz"). The final purchase price, following customary post-closing adjustments to the extent actual closing date working capital, cash, debt, and unpaid seller transaction expenses exceeded or were less than the amounts estimated at closing, was $230,205. Pursuant to the merger agreement for the transaction, $48,500 of the purchase price was placed in an escrow account at the closing, consisting of $2,500 for any final purchase price adjustments owed by the sellers, which amount was released to the sellers on December 15, 2022, in connection with post-closing adjustments, and $46,000 for indemnification matters under the merger agreement.

The primary reason for the acquisition was to expand the Company's digital financial management solutions and the purchase was funded by our revolving line of credit (Note 6) and cash generated from operations. Payrailz provides cloud-native, API-first, AI-enabled consumer and commercial digital payment solutions and experiences that enable money to be moved in the moment of need.

Management has completed a preliminary purchase price allocation and assessment of the fair value of acquired assets and liabilities assumed. The recognized amounts of identifiable assets acquired, and liabilities assumed, based on their fair values as of August 31, 2022, and taking into account the post-closing purchase price adjustment described above, are set forth below:

Current assets	$	1,851
Identifiable intangible assets		119,868
Deferred revenue		(8,104)
Total other liabilities assumed		(749)
Total identifiable net assets		112,866
Goodwill		117,339
Net assets acquired	$	230,205

The amounts shown above include a measurement period adjustment made during the second quarter of fiscal 2023 related to a working capital adjustment. The amounts shown above may change as management continues to evaluate the income tax implications of this business combination.

The goodwill of $117,339 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 Payrailz, together with the value of Payrailz's assembled workforce. The goodwill from this acquisition has been allocated to our Payments segment and $117,339 is expected to be deductible for income tax purposes.

Identifiable intangible assets from this acquisition consist of customer relationships of $6,109, computer software of $112,505, and other intangible assets of $1,254. The amortization period for acquired customer relationships, computer software, and other intangible assets is over a term of 15 years, 10 years, and 15 years, respectively.

Current assets were inclusive of cash acquired of $577. The fair value of current assets acquired included accounts receivable of $978, none of which were expected to be uncollectible.

Costs incurred related to the acquisition of Payrailz during the three and six months ended December 31, 2022, totaled $50 and $508, respectively, for administrative and professional services, travel, and other fees, and were expensed as incurred and reported within cost of revenue and selling, general, and administrative expense.

The Company's condensed consolidated statements of income for the three and six months ended December 31, 2022, included revenue of $2,578 and $3,316, respectively, and after-tax net loss of $5,387 and $7,251, respectively, resulting from Payrailz's operations.

The accompanying condensed consolidated statements of income for the three and six months ended December 31, 2022, and 2021, do not include any revenues and expenses related to this acquisition prior to the acquisition date. The following unaudited pro forma consolidated financial information for the six months ended December 31, 2022, and the three and six months ended December 31, 2021, is presented as if this acquisition had occurred at the beginning of the prior period presented. The pro forma net income includes estimated incremental amortization expense of $1,611 and $4,546 for the three and six months ended December 31, 2021, respectively, and $1,957 for the six months ended December 31, 2022. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the acquisition had actually occurred during this period, or the results that may be obtained in the future as a result of the acquisition.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	**2022**	2021
	Actual	Pro forma	Pro forma	Pro forma
Revenue	**$ 505,314**	$ 495,727	**$ 1,036,143**	$ 985,124
Net Income	**80,775**	92,793	**182,787**	189,890

NOTE 11. REPORTABLE SEGMENT INFORMATION

The Company is a provider of integrated computer systems that perform data processing (available for on-premise installations or JKHY cloud-based services) for banks and credit unions.

The Company's operations are classified into four reportable segments: Core, Payments, Complementary, and Corporate & Other. The Core segment provides core information processing platforms to banks and credit unions, which consist of integrated applications required to process deposit, loan, and general ledger transactions, and maintain centralized customer/member information. The Payments segment provides secure payment processing tools and services, including ATM, debit, and credit card transaction processing services, online and mobile bill pay solutions, Automated Clearing House ("ACH") origination and remote deposit capture processing, and risk management products and services. The Complementary segment provides additional software and services that can be integrated with our Core solutions, and many can be used independently. The Corporate & Other segment includes hardware revenue and costs, as well as operating costs not directly attributable to the other three segments.

The Company evaluates the performance of its segments and allocates resources to them based on various factors, including performance against trend, budget, and forecast. Only revenue and costs of revenue are considered in the evaluation for each segment.

Immaterial adjustments have been made to reclassify revenue that was recognized for the three and six months ended December 31, 2021, from the Complementary to the Payments and Corporate and Other segments. Immaterial adjustments were also made to reclassify cost of revenue from the Complementary to the Payments and Corporate and Other segments for the three and six months ended December 31, 2021. These reclasses were made to be consistent with the current allocation of revenue and cost of revenue by segment. Revenue reclassed for the three and six months ended December 31, 2021, from Complementary to Payments was $2,977 and $5,946, respectively, and from Complementary to Corporate and Other was $2,207 and $2,941, respectively. Cost of revenue reclassed for the three and six months ended December 31, 2021, from Complementary to Payments was $1,396 and $2,754, respectively, and from Complementary to Corporate and Other was $773 and $482, respectively.

	Three Months Ended December 31, 2022				
	Core	Payments	Complementary	Corporate & Other	Total
REVENUE					
Services and Support	$ 145,650	$ 19,340	$ 110,380	$ 15,330	$ 290,700
Processing	9,740	172,147	31,915	812	214,614
Total Revenue	155,390	191,487	142,295	16,142	505,314
Cost of Revenue	68,324	108,071	59,270	68,924	304,589
Research and Development					36,561
Selling, General, and Administrative					56,788
Total Expenses					397,938
SEGMENT INCOME	$ 87,066	$ 83,416	$ 83,025	$ (52,782)	
OPERATING INCOME					107,376
INTEREST INCOME (EXPENSE)					(2,166)
INCOME BEFORE INCOME TAXES					$ 105,210

	Three Months Ended December 31, 2021				
	Core	Payments	Complementary	Corporate & Other	Total
REVENUE					
Services and Support	$ 145,699	$ 25,294	$ 108,933	$ 16,285	$ 296,211
Processing	9,179	160,211	27,607	688	197,685
Total Revenue	154,878	185,505	136,540	16,973	493,896
Cost of Revenue	64,554	96,966	55,982	65,323	282,825
Research and Development					29,916
Selling, General, and Administrative					55,493
Total Expenses					368,234
SEGMENT INCOME	$ 90,324	$ 88,539	$ 80,558	$ (48,350)	
OPERATING INCOME					125,662
INTEREST INCOME (EXPENSE)					(441)
INCOME BEFORE INCOME TAXES					$ 125,221

	Six Months Ended December 31, 2022				
	Core	Payments	Complementary	Corporate & Other	Total
REVENUE					
Services and Support	310,675	37,998	228,528	33,648	610,849
Processing	19,839	340,028	62,119	1,681	423,667
Total Revenue	330,514	378,026	290,647	35,329	1,034,516
Cost of Revenue	140,564	209,226	117,708	135,351	602,849
Research and Development					69,554
Selling, General, and Administrative					114,013
Total Expenses					786,416
SEGMENT INCOME	$ 189,950	$ 168,800	$ 172,939	$ (100,022)	
OPERATING INCOME					248,100
INTEREST INCOME (EXPENSE)					(3,590)
INCOME BEFORE INCOME TAXES					$ 244,510

	Six Months Ended December 31, 2021				
	Core	Payments	Complementary	Corporate & Other	Total
REVENUE					
Services and Support	$ 301,536	$ 42,357	$ 221,739	$ 28,072	$ 593,704
Processing	18,627	315,739	52,579	1,303	388,248
Total Revenue	320,163	358,096	274,318	29,375	981,952
Cost of Revenue	131,456	191,549	110,399	126,056	559,460
Research and Development					56,670
Selling, General, and Administrative					106,565
Total Expenses					722,695
SEGMENT INCOME	$ 188,707	$ 166,547	$ 163,919	$ (96,681)	
OPERATING INCOME					259,257
INTEREST INCOME (EXPENSE)					(683)
INCOME BEFORE INCOME TAXES					$ 258,574

The Company has not disclosed any additional asset information by segment, as the information is not generated for internal management reporting to the Chief Executive Officer, who is also the Chief Operating Decision Maker.

NOTE 12. SUBSEQUENT EVENTS

None.

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, 2022.

OVERVIEW

Jack Henry & Associates, Inc. ("JKHY") is a well-rounded financial technology company and is a leading provider of technology solutions and payment processing services primarily for financial services organizations. Its solutions consist of integrated data processing systems solutions to U.S. banks ranging from de novo to multi-billion-dollar institutions, core data processing solutions for credit unions of all sizes, and non-core highly specialized core-agnostic 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. JKHY's integrated solutions are available for on-premise installation and delivery in our private cloud.

Our two primary revenue streams are "services and support" and "processing." Services and support includes: "private and public cloud" fees that predominantly have contract terms of seven years or longer at inception; "product delivery and services" revenue, which includes revenue from the sales of licenses, implementation services, deconversion fees, consulting, and hardware; and "on-premise support" revenue, composed of maintenance fees which primarily contain annual contract terms. Processing revenue includes: "remittance" revenue from payment processing, remote capture, and ACH transactions; "card" fees, including card transaction processing and monthly fees; and "transaction and digital" revenue, which includes transaction and mobile processing fees. We continually seek opportunities to increase revenue while at the same time containing costs to expand margins.

All amounts in the following discussion are in thousands, except per share amounts.

RESULTS OF OPERATIONS

For the second quarter of fiscal 2023, total revenue increased 2%, or $11,418, compared to the same quarter in fiscal 2022. Total revenue less deconversion fee and acquisition revenues of $6,380 and $2,578, respectively, for the current fiscal quarter and less deconversion fee revenues of $26,903 for the prior fiscal quarter, results in an increase of 6%, quarter over quarter. This increase was primarily driven by growth in data processing and hosting, card processing, transaction and digital, and remittance revenues.

Operating expenses increased 8% for the second quarter of fiscal 2023 compared to the second quarter of fiscal 2022. Total operating expenses less deconversion expenses of $917, the acquisition-related expenses of $6,907, plus the gain on disposal of assets, net, of $1,207, for the current fiscal quarter, and reducing operating expenses by deconversion expenses of $2,547 for the prior fiscal year quarter, results in a 7% increase quarter over quarter. This increase in operating expenses was primarily driven by higher personnel costs, including benefits expenses, resulting from a 4% headcount increase in the trailing twelve months, increased direct costs in line with related revenue increases, and higher amortization of intangible assets.

Operating income decreased 15% for the second quarter of fiscal 2023 compared to the second quarter of fiscal 2022. Total operating income less deconversion fee operating income of $5,463, plus an acquisition operating loss of $4,329, less the gain on disposal of assets, net, of $1,207 for the current fiscal quarter, and less deconversion fee operating income of $24,356 for the prior fiscal quarter, results in a 4% increase quarter over quarter. This increase in operating income was primarily driven by increased revenue growth partially offset by increased operating expenses detailed above.

The provision for income taxes decreased 17% for the second quarter of fiscal 2023 compared to the prior fiscal year second quarter. The effective tax rate for the second quarter of fiscal 2023 was 23.2% compared to 23.6% for the same quarter a year ago.

Due to the above changes, net income decreased 16% for the second quarter of fiscal 2023 compared to the second quarter of fiscal 2022. Total net income less deconversion fee net income of $4,111, plus acquisition net loss of $5,405, less the gain on disposal of assets, net, of $909 for the current fiscal quarter, and less deconversion fee net income of $18,352 for the prior fiscal quarter, results in a 5% increase quarter over quarter.

For the six months ended December 31, 2022, total revenue increased 5%, or $52,564, compared to the same period in fiscal year 2022. Total revenue less deconversion fee and acquisition revenues of $10,899 and $3,316, respectively, for the current fiscal period and less deconversion fee revenues of $30,627 for the prior fiscal period, results in an increase of 7%, period over period. This increase was primarily driven by growth in data processing and hosting, card processing, transaction and digital, remittance, and software usage fee revenues.

Operating expenses increased 9% for the six months ended December 31, 2022, compared to the same period in fiscal year 2022. The increase in operating expenses was primarily driven by increased personnel costs, including benefits expenses, resulting from a 4% headcount increase in the trailing twelve months, higher direct costs in line with related revenue increases, and higher amortization of intangible assets.

Operating income decreased 4% for the six months ended December 31, 2022, compared to the same period in fiscal year 2022. Total operating income less deconversion fee operating income of $9,329, plus an acquisition operating loss of $6,126, less the gain on disposal of assets, net, of $7,384 for the current fiscal period, less deconversion fee operating income of $27,540 for the prior fiscal period, results in a 3% increase period over period. This increase in operating income was primarily driven by increased revenue growth partially offset by increased operating expenses detailed above.

The provision for income taxes decreased 6% for the six months ended December 31, 2022, compared to the same period in fiscal year 2022. The effective tax rate for the six months ended December 31, 2022, was 23.4% compared to 23.5% for the same period a year ago.

Due to the above changes, net income decreased 5% for the six months ended December 31, 2022, compared to the same period a year ago. Total net income less deconversion fee net income of $7,020, plus acquisition net loss of $7,275, less the gain on disposal of assets, net, of $5,556 for the current fiscal period, and less deconversion fee net income of $20,751 for the prior fiscal period, results in a 3% increase period over period.

Our second fiscal quarter was significantly impacted by a recent rapid slowdown of merger and acquisition activity in the financial institution industry, which has caused decreases in deconversion fee revenue, as noted, and in conversion/merger services revenue. However, we move into the third quarter of fiscal 2023 with significant portions of our business continuing to come from recurring revenues and our sales pipeline remaining encouraging. Our customers continue to face regulatory and operational challenges which our products and services address, and we believe they have a great need for our solutions that directly address institutional profitability, efficiency, and security. Our strong balance sheet, access to extensive lines of credit, the continued strength of our existing lines of revenue, and an unwavering commitment to superior customer service should 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, 2022, follows. Discussions compare the current fiscal year's three and six months ended December 31, 2022, to the prior fiscal year's three and six months ended December 31, 2021.

REVENUE

Services and Support	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Services and Support	**$ 290,700**	$ 296,211	**(2)%**	**$ 610,849**	$ 593,704	**3 %**
Percentage of total revenue	**58 %**	60 %		**59 %**	60 %	

Services and support revenue decreased 2% for the second quarter of fiscal 2023 compared to the same quarter a year ago. Reducing services and support revenue for deconversion fee revenue from each quarter, which was $6,380 for the current fiscal quarter and $26,903 for the prior fiscal year quarter and acquisition revenue of $19 for the current fiscal quarter, results in growth of 6% quarter over quarter. This increase was primarily driven by growth in data processing and hosting revenue.

Services and support revenue increased 3% for the six months ended December 31, 2022 compared to the same period a year ago. Reducing services and support revenue for deconversion fee revenue from each period, which was $10,899 for the current fiscal period and $30,627 for the prior fiscal period, and acquisition revenue of $43 for the current fiscal period, results in growth of 7% period over period. This increase was primarily driven by growth in data processing and hosting and software usage fee revenues. Growth in software usage fee revenues reflects a continuing shift of customers to our time-based license model.

Processing	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Processing	**$ 214,614**	$ 197,685	**9 %**	**$ 423,667**	$ 388,248	**9 %**
Percentage of total revenue	**42 %**	40 %		**41 %**	40 %	

Processing revenue increased 9% for the second quarter of fiscal 2023 compared to the same quarter last fiscal year. Reducing processing revenue for acquisition revenue of $2,559 for the current fiscal quarter, results in growth of 7% quarter over quarter. This increase was primarily driven by higher card processing, payment processing, including iPay and Payrailz, and Jack Henry digital revenue, including Banno, as well as other processing fee revenues, primarily due to expanding volumes.

Processing revenue increased 9% for the six months ended December 31, 2022, compared to the same period last fiscal year. Reducing processing revenue for acquisition revenue of $3,273 for the current fiscal period, results in growth of 8% period over period. This increase was primarily driven by higher card processing and Jack Henry digital revenue, including Banno, as well as payment processing fees, including iPay and Payrailz, and other processing fee revenues, primarily due to expanding volumes.

OPERATING EXPENSES

Cost of Revenue	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Cost of Revenue	**$ 304,589**	$ 282,825	**8 %**	**$ 602,849**	$ 559,460	**8 %**
Percentage of total revenue	**60 %**	57 %		**58 %**	57 %	

Cost of revenue for the second quarter of fiscal 2023 increased 8% over the prior fiscal year second quarter. Reducing cost of revenue for deconversion costs from each quarter, which were $555 for the current fiscal year quarter and $1,601 for the prior fiscal year quarter, and for acquisition costs of $5,861 from the current fiscal year quarter, results in a 6% increase quarter over quarter. This increase was primarily due to higher personnel costs, including benefits expenses, resulting from a 1% headcount increase in the trailing twelve months, higher direct costs in line with related increases in revenue, and increased amortization of intangible assets. Cost of revenue increased 3% compared to the prior fiscal year quarter as a percentage of total revenue.

Cost of revenue increased 8% for the six months ended December 31, 2022, compared to the same period last fiscal year. Reducing cost of revenue for deconversion costs from each period, which were $965 for the current fiscal period and $1,938 for the prior fiscal period, and for acquisition costs of $7,400 from the current fiscal period, results in a 7% increase period over period. This increase was primarily due to higher direct costs in line with related increases in revenue, higher personnel costs, including benefits expenses, resulting from a 1% headcount increase in the trailing twelve months, and increased amortization of intangible assets. Cost of revenue increased 1% compared to the prior fiscal period as a percentage of total revenue.

Research and Development	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Research and Development	**$ 36,561**	$ 29,916	**22 %**	**$ 69,554**	$ 56,670	**23 %**
Percentage of total revenue	**7 %**	6 %		**7 %**	6 %	

Research and development expense increased 22% for the second quarter of fiscal 2023 over the prior fiscal year second quarter. Reducing research and development expense for the effects of acquisitions of $274 for the current fiscal quarter, results in a 21% increase quarter over quarter. This increase was primarily due to an increase in personnel costs, net of capitalization, including benefits expenses, resulting from a 13% headcount increase in the trailing twelve months, and higher internal licenses and fees. Research and development expense for the quarter increased 1% compared to the prior fiscal year quarter as a percentage of total revenue.

Research and development expense increased 23% for the six months ended December 31, 2022, compared to the same period last fiscal year. Reducing research and development expense for the effects of acquisitions of $606 for the current fiscal period, results in a 22% increase period over period. This increase was primarily due to an increase in personnel costs, net of capitalization, including benefits expenses, resulting from a 13% headcount increase in the trailing twelve months, and higher internal licenses and fees. Research and development expense for the current fiscal period increased 1% compared to the prior fiscal year period as a percentage of total revenue.

Selling, General, and Administrative	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Selling, General, and Administrative	**$ 56,788**	$ 55,493	**2 %**	**$ 114,013**	$ 106,565	**7 %**
Percentage of total revenue	**11 %**	11 %		**11 %**	11 %	

Selling, general, and administrative expense increased 2% in the second quarter of fiscal 2023 over the same quarter in the prior fiscal year. Reducing selling, general, and administrative expense for the effects of deconversion fees from each quarter, which were $362 for the current fiscal year quarter and $946 for the prior fiscal year quarter, and for the effects of acquisitions of $772 for the current fiscal year quarter, and increasing selling, general, and administrative expense for the gain on disposal of assets, net, of $1,207 for the current fiscal year quarter, results in a 4% increase quarter over quarter. This increase was primarily due to higher personnel costs, including benefits expenses, resulting from a 5% headcount increase in the trailing twelve months. Selling, general, and administrative expense remained consistent as a percentage of total revenue this fiscal quarter versus the prior fiscal year quarter.

Selling, general, and administrative expense increased 7% in the six months ended December 31, 2022, compared to the same period last fiscal year. Reducing selling, general, and administrative expense for the effects of deconversion fees from each period, which were $604 for the current fiscal year period and $1,149 for the prior fiscal year period, and for the effects of acquisitions of $1,436 for the current fiscal period, and increasing selling, general, and administrative expense for the gain on disposal of assets, net, of $7,384 for the current fiscal year period, results in a 13% increase period over period. This increase was primarily due to higher personnel costs, including benefits expenses, resulting from a 5% headcount increase in the trailing twelve months, increased travel expenses, and increased consulting and other professional services. Selling, general, and administrative expense remained consistent as a percentage of total revenue this fiscal period versus the prior fiscal year period.

INTEREST INCOME (EXPENSE)	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Interest Income	**$ 1,240**	$ 6	**20,567 %**	**$ 1,392**	$ 13	10,608 %
Interest Expense	**$ (3,406)**	$ (447)	**662 %**	**$ (4,982)**	$ (696)	616 %

Interest income fluctuated due to changes in invested balances and yields on invested balances during the second quarter of fiscal 2023 and six months ended December 31, 2022, compared to the same periods a year ago. Interest expense increased when compared to the prior fiscal year quarter and year-to-date period due to recent increases in prevailing interest rates, length of borrowing time, and amounts borrowed. There was a $275,000 outstanding balance under the credit facility at December 31, 2022, and $240,000 outstanding balance at December 31, 2021. The increase in the outstanding balance was primarily due to funding the Payrailz acquisition on August 31, 2022.

PROVISION FOR INCOME TAXES	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Provision for Income Taxes	**$ 24,435**	$ 29,551	**(17)%**	**$ 57,186**	$ 60,791	**(6)%**
Effective Rate	**23.2 %**	23.6 %		**23.4 %**	23.5 %	

The change in effective tax rate for the second quarter of fiscal 2023 and six months ended December 31, 2022, compared to the same periods a year ago was primarily due to larger excess tax benefits received from share-based compensation in the current fiscal periods.

NET INCOME	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Net income	**$ 80,775**	$ 95,670	**(16)%**	**$ 187,324**	$ 197,783	**(5)%**
Diluted earnings per share	**$ 1.10**	$ 1.30	**(15)%**	**$ 2.56**	$ 2.68	**(4)%**

Net income decreased 16% to $80,775, or $1.10 per diluted share, for the second quarter of fiscal 2023 compared to $95,670, or $1.30 per diluted share in the same quarter of fiscal 2022. Total net income less deconversion fee net income of $4,111, an acquisition net loss of $5,405, and the gain on disposal of assets, net, of $909, for the current fiscal quarter, and reducing operating expenses for the effects of deconversion fees of $18,352 for the prior fiscal year quarter, results in a 5% increase quarter over quarter.

Net income decreased 5% to $187,324, or $2.56 per diluted share, for the six months ended December 31, 2022, compared to $197,783, or $2.68 per diluted share in the same period of fiscal 2022. Total net income less the net effects of deconversion fees of $7,020, an acquisition net loss of $7,275, and the gain on disposal of assets, net, of $5,556, for the current fiscal period and reducing operating expenses for the effects of deconversion fees of $20,751 for the prior fiscal year period, results in a 3% increase period over period.

REPORTABLE SEGMENT DISCUSSION

The Company is a leading provider of technology solutions and payment processing services primarily for financial services organizations.

The Company's operations are classified into four reportable segments: Core, Payments, Complementary, and Corporate and Other. The Core segment provides core information processing platforms to banks and credit unions, which consist of integrated applications required to process deposit, loan, and general ledger transactions, and maintain centralized customer/member information. The Payments segment provides secure payment processing tools and services, including ATM, debit, and credit card processing services; online and mobile bill pay solutions; ACH origination and remote deposit capture processing; and risk management products and services. The Complementary segment provides additional software, hosted processing platforms, and services, including call center support, and network security management, consulting, and monitoring, that can be integrated with our core solutions and many can be used independently. The Corporate and Other segment includes revenue and costs from hardware and other products not attributed to any of the other three segments, as well as operating costs not directly attributable to the other three segments.

Core

	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Revenue	**$ 155,390**	$ 154,878	— %	**$ 330,514**	$ 320,163	3 %
Cost of Revenue	**$ 68,324**	$ 64,554	6 %	**$ 140,564**	$ 131,456	7 %

Revenue in the Core segment remained consistent and cost of revenue increased 6% for the three months ended December 31, 2022, compared to the three months ended December 31, 2021. Reducing Core revenue for deconversion fee revenue in both periods, which totaled $2,115 for the second quarter of fiscal 2023 and $10,853 for the second quarter of fiscal 2022, results in a 6% increase quarter over quarter. Cost of revenue increased 6% quarter over quarter primarily due to higher personnel costs and increased direct support costs. Cost of revenue increased 2% as a percentage of revenue for the second quarter of fiscal 2023 compared to the same quarter of fiscal 2022.

Revenue in the Core segment increased 3% and cost of revenue increased 7% for the six months ended December 31, 2022, compared to the six months ended December 31, 2021. Reducing Core revenue for deconversion fee revenue in both periods, which totaled $3,933 for the six months ended December 31, 2022, and $13,021 for the six months ended December 31, 2021, results in a 6% increase period over period. This increase in Core revenue over the prior fiscal year period was primarily driven by the growth in data processing and hosting and software usage fee revenues. Cost of revenue increased 7% period over period primarily due to increased direct support costs and higher personnel costs. Cost of revenue increased 1% as a percentage of revenue for the six months ended December 31, 2022, compared to the same period of fiscal 2022.

Payments

	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Revenue	**$ 191,487**	$ 185,505	3 %	**$ 378,026**	$ 358,096	6 %
Cost of Revenue	**$ 108,071**	$ 96,966	11 %	**$ 209,226**	$ 191,549	9 %

Revenue in the Payments segment increased 3% for the second quarter of fiscal 2023 compared to the equivalent quarter of the prior fiscal year. Reducing Payments revenue for deconversion fee revenue in both periods, which totaled $1,336 for the second quarter of fiscal 2023 and $7,933 for the second quarter of fiscal 2022 and for revenue from acquisitions of $2,578 from the current fiscal year quarter, results in a 6% increase quarter over quarter. This Payments revenue growth was primarily due to increased card and remittance fee revenues within processing. Cost of revenue increased 11% quarter over quarter primarily due to increased direct costs in line with associated revenues and higher personnel costs. Cost of revenue as a percentage of revenue increased 4% for the second quarter of fiscal 2023 compared to the same quarter of fiscal 2022.

Revenue in the Payments segment increased 6% for the six months ended December 31, 2022, compared to the equivalent period of the prior fiscal year. This Payments revenue growth was primarily due to increased card and remittance fee revenues within processing. Cost of revenue increased 9% period over period primarily due to increased direct costs in line with associated revenues and higher personnel costs. Cost of revenue as a percentage of revenue increased 2% for the six months ended December 31, 2022, compared to the same period of fiscal 2022.

Complementary

	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Revenue	**$ 142,295**	$ 136,540	4 %	**$ 290,647**	$ 274,318	6 %
Cost of Revenue	**$ 59,270**	$ 55,982	6 %	**$ 117,708**	$ 110,399	7 %

Revenue in the Complementary segment increased 4% for the second quarter of fiscal 2023 compared to the equivalent quarter of the prior fiscal year. This Complementary revenue growth was primarily driven by increased hosting fees and Jack Henry digital revenues. Cost of revenue increased 6% quarter over quarter primarily due to increased direct costs in line with associated revenues and higher personnel costs. Cost of revenue as a percentage of revenue increased 1% for the second quarter of fiscal 2023 compared to the same quarter of fiscal 2022.

Revenue in the Complementary segment increased 6% for the six months ended December 31, 2022, compared to the equivalent period of the prior fiscal year. This Complementary revenue growth was primarily driven by increased hosting fees and Jack Henry digital revenues. Cost of revenue increased 7% period over period primarily due to increased direct costs in line with associated revenues and higher personnel costs. Cost of revenue as a percentage of revenue remained consistent for the six months ended December 31, 2022, compared to the same period of fiscal 2022.

Corporate and Other

	Three Months Ended December 31,		% Change	Six Months Ended December 31,		% Change
	2022	2021		**2022**	2021	
Revenue	**$ 16,142**	$ 16,973	(5)%	**$ 35,329**	$ 29,375	20 %
Cost of Revenue	**$ 68,924**	$ 65,323	6 %	**$ 135,351**	$ 126,056	7 %

Revenue classified in the Corporate and Other segment includes revenues from other products and services and hardware not specifically attributed to any of the other three segments. Revenue in the Corporate and Other segment decreased 5% for the second quarter of fiscal 2023 compared to the equivalent quarter of the prior fiscal year. The decrease quarter over quarter was primarily due to lower user group revenues due to differences in the timing of the user conference year over year.

Cost of revenue for the Corporate and Other segment includes operating costs not directly attributable to any of the other three segments. The cost of revenue in the second quarter of fiscal 2023 increased 6% when compared to the prior fiscal year quarter primarily due to higher internal licenses and fees and personnel costs.

Revenue in the Corporate and Other segment increased 20% for the six months ended December 31, 2022, compared to the equivalent period of the prior fiscal year. The increase period over period was primarily due to higher services and support revenue.

The cost of revenue in the six months ended December 31, 2022, increased 7% when compared to the prior fiscal year period primarily due to higher internal licenses and fees, personnel costs, and hardware costs.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased to $25,763 at December 31, 2022, from $48,787 at June 30, 2022.

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

	Six Months Ended December 31,	
	2022	2021
Net income	**$ 187,324**	$ 197,783
Non-cash expenses	**73,405**	113,293
Change in receivables	**102,672**	70,468
Change in deferred revenue	**(125,433)**	(119,822)
Change in other assets and liabilities	**(47,257)**	(64,371)
Net cash provided by operating activities	**$ 190,711**	$ 197,351

Cash provided by operating activities for the first six months of fiscal 2023 decreased 3% compared to the same period last year. Cash from operations is primarily used to repay debt, pay dividends, repurchase stock, for capital expenditures, and acquisitions.

Cash used in investing activities for the first six months of fiscal 2023 totaled $301,192 and included: $229,628 for an acquisition; $81,046 for the ongoing enhancements and development of existing and new product and service offerings; capital expenditures on facilities and equipment of $17,376; and $1,027 for the purchase and development of internal use software. This was partially offset by proceeds from the sale of assets of $27,885. Cash used in investing activities for the first six months of fiscal 2022 totaled $101,052 and included $71,353 for the development of software; capital expenditures of $22,373; and $7,364 for the purchase and development of internal use software. This was partially offset by proceeds from the sale of assets of $38.

Financing activities provided cash of $87,457 for the first six months of fiscal 2023 and included borrowings on credit facilities of $365,000. This was partially offset by payments on credit facilities of $205,042, dividends paid to stockholders of $71,454 and $1,047 net cash outflow from the issuance of stock and tax withholding related to stock-based compensation. Financing activities used cash of $118,171 in the first six months of fiscal 2022 including repurchase of treasury stock of $193,917, $80,065 for repayments on credit facilities and financing leases, and $67,696 for the payment of dividends. This was partially offset by borrowings on credit facilities of $220,000 and $3,507 net cash inflow from the issuance of stock and tax withholding related to stock-based compensation.

Capital Requirements and Resources

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling $17,376 and $22,373 for the six months ended December 31, 2022, and December 31, 2021, respectively, were made primarily for additional equipment and the improvement of existing facilities. These additions were funded from cash generated by operations. Total consolidated capital expenditures on facilities and equipment for the Company for fiscal year 2023 are expected to be approximately $57,000 and have been or will be funded from our credit facilities and cash generated by operations.

On August 31, 2022, the Company acquired all of the equity interest in Payrailz, LLC ("Payrailz"). The final purchase price, following customary post-closing adjustments to the extent actual closing date working capital, cash, debt, and unpaid seller transaction expenses exceeded or were less than the amounts estimated at closing, was $230,205. Pursuant to the merger agreement for the transaction, $48,500 of the purchase price was placed in an escrow account at the closing, consisting of $2,500 for any final purchase price adjustments owed by the sellers, which amount was released to the sellers on December 15, 2022, in connection with post-closing adjustments, and $46,000 for indemnification matters under the merger agreement.

The primary reason for the acquisition was to expand the Company's digital financial management solutions and the purchase was funded by our revolving line of credit and cash generated from operations. Payrailz provides cloud-native, API-first, AI-enabled consumer and commercial digital payment solutions and experiences that enable money to be moved in the moment of need.

On September 29, 2022, the Company entered into an agreement with Twilio Inc., which added contractual spend obligations for the period October 1, 2022, through September 30, 2027, of $16,350. This commitment is in addition to the commitments discussed in our Annual Report on Form 10-K for the year ended June 30, 2022.

On December 27, 2022, the Company renewed an agreement with Microsoft, Inc., which added contractual spend obligations for the period January 1, 2023, through June 30, 2026, of $20,000 for Microsoft Azure Cloud services, and added contractual spend obligations for the period January 1, 2023, through June 30, 2026, of $49,000 for Server and Application licensing under the Microsoft Server and Cloud Enrollment Program.

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 December 31, 2022, and June 30, 2022, there were 31,043 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,948 additional shares. The total cost of treasury shares at December 31, 2022, and June 30, 2022, was $1,807,118.

On August 16, 2022, the Inflation Reduction Act of 2022 (“IRA”) was signed into law. The IRA made several changes to the U.S. tax code including, but not limited to, a 1% excise tax on net stock repurchases and tax incentives to promote clean energy. The Company does not expect the IRA to have a material impact on its financial statements.

Credit facilities

On August 31, 2022, the Company entered into a five-year senior, unsecured amended and restated credit agreement that replaced the prior credit agreement described below. The credit agreement allows for borrowings of up to $600,000, which may be increased by the Company to $1,000,000 at any time until maturity. The credit agreement bears interest at a variable rate equal to (a) a rate based on an adjusted Secured Overnight Financing Rate ("SOFR") term rate or (b) an alternate base rate (the highest of (i) 0%, (ii) the Prime Rate for such day, (iii) the sum of the Federal Funds Effective Rate for such day *plus* 0.50% per annum and (iv) the Adjusted Term SOFR Screen Rate (without giving effect to the Applicable Margin) for a one month Interest Period on such day for Dollars *plus* 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The credit agreement is guaranteed by certain subsidiaries of the Company and is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the credit agreement. As of December 31, 2022, the Company was in compliance with all such covenants. The amended and restated credit facility terminates August 31, 2027. There was $275,000 outstanding under the amended and restated credit facility at December 31, 2022.

On June 30, 2022, there was a $115,000 outstanding balance on the prior credit facility that was entered into on February 10, 2020. The prior credit facility was a five-year senior, unsecured revolving credit facility. The credit facility allowed for borrowings of up to $300,000, which could be increased by the Company to $700,000 at any time until maturity. The prior credit facility bore interest at a variable rate equal to (a) a rate based on a eurocurrency rate or (b) an alternate base rate (the highest of (i) 0%, (ii) the U.S. Bank prime rate for such day, (iii) the sum of the Federal Funds Effective Rate for such day plus 0.50% and (iv) the eurocurrency rate for a one-month interest period on such day for dollars *plus* 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The prior credit facility was guaranteed by certain subsidiaries of the Company and was subject to various financial covenants that required the Company to maintain certain financial ratios as defined in the prior credit agreement. As of June 30, 2022, the Company was in compliance with all such covenants. The prior credit facility's termination date was February 10, 2025.

The increase in the outstanding credit facility balance of $160,000 at December 31, 2022, compared to June 30, 2022, was primarily due to the acquisition of Payrailz during the six months ended December 31, 2022. This borrowing, along with recent increases in prevailing interest rates, is expected to contribute to increased interest expense during fiscal 2023, and until our outstanding balances are reduced.

Other lines of credit

The Company has an unsecured bank credit line which provides for funding of up to $5,000 and bears interest at the prime rate less 1%. The credit line was renewed in March 2021 and expires on April 30, 2023. At December 31, 2022, and June 30, 2022, no amount was outstanding.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Dollar amounts in this item are in thousands.

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 at times are exposed to interest rate 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.

We had $275,000 outstanding debt with variable interest rates as of December 31, 2022, and a 1% increase in our borrowing rate would increase our annual interest expense by $2,750.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of our management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation (required in Exchange Act Rules 13a-15(b) and 15d-15(b)), the CEO and CFO concluded that our disclosure controls and procedures are effective to provide reasonable assurance 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 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.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended December 31, 2022, there were no changes in internal control over financial reporting which were identified in connection with management’s evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various routine legal proceedings and claims arising in the ordinary course of our business. In the opinion of management, any liabilities resulting from current lawsuits are not expected, either individually or in the aggregate, to have a material adverse effect on our consolidated financial statements. In accordance with U.S. GAAP, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These liabilities are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case or proceeding.

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

Issuer Purchases of Equity Securities

The following shares of the Company were repurchased during the quarter ended December 31, 2022:

	Total Number of Shares Purchased	Average Price of Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans [(1)]
October 1- October 31, 2022	—	—	—	3,947,713
November 1- November 30, 2022	—	—	—	3,947,713
December 1- December 31, 2022	—	—	—	3,947,713
Total	**—**	**—**	**—**	**3,947,713**

[(1)] Total stock repurchase authorizations approved by the Company's Board of Directors as of May 17, 2021, were for 35 million shares. Under these authorizations, the Company has repurchased and not re-issued 31,042,903 shares and has repurchased and re-issued 9,384 shares. These authorizations have no specific dollar or share price targets and no expiration dates.

ITEM 6. EXHIBITS

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- the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL 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

104* Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* 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, 2022, and June 30, 2022, (ii) the Condensed Consolidated Statements of Income for the three and six months ended December 31, 2022, and 2021, (iii) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the three and six months ended December 31, 2022, and 2021, (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2022, and 2021, and (v) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

JACK HENRY & ASSOCIATES, INC.

Date: February 9, 2023	/s/ David B. Foss David B. Foss Chief Executive Officer and Board Chair
Date: February 9, 2023	/s/ Mimi L. Carsley Mimi L. Carsley Chief Financial Officer and Treasurer

EXHIBIT 31.1

CERTIFICATION

I, David B. Foss, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Jack Henry & Associates, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter, (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2023

/s/ David B. Foss
David B. Foss
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Mimi L. Carsley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Jack Henry & Associates, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter, (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 9, 2023

/s/ Mimi L. Carsley
Mimi L. Carsley
Chief Financial Officer

EXHIBIT 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Chief Executive Officer of Jack Henry & Associates, Inc. (the "Company"), hereby certify that, to my knowledge, the Quarterly Report on Form 10-Q of the Company for the six month period ended December 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 9, 2023

*/s/ David B. Foss
David B. Foss
Chief Executive Officer

*A signed original of this written statement required by Section 906 has been provided to Jack Henry & Associates, Inc. and will be retained by Jack Henry & Associates, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Chief Financial Officer of Jack Henry & Associates, Inc. (the "Company"), hereby certify that, to my knowledge, the Quarterly Report on Form 10-Q of the Company for the six month period ended December 31, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 9, 2023

*/s/ Mimi L. Carsley
Mimi L. Carsley
Chief Financial Officer

*A signed original of this written statement required by Section 906 has been provided to Jack Henry & Associates, Inc. and will be retained by Jack Henry & Associates, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.