HENRY JACK & ASSOCIATES INC
Form 10-Q
February 09, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 31, 2016

OR

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

Commission file number 0-14112

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

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

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

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

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

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

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

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

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of February 6, 2017, the Registrant had 77,629,679 shares of Common Stock outstanding ($0.01 par value).

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

FORWARD LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including without limitation, in Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements are identified at “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended June 30, 2016. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I. FINANCIAL INFORMATION
ITEM I. FINANCIAL STATEMENTS

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

	December 31, 2016	June 30, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,188	$ 70,310
Receivables, net	146,256	253,923
Income tax receivable	9,649	15,636
Prepaid expenses and other	60,845	56,588
Deferred costs	42,799	35,472
Total current assets	323,737	431,929
PROPERTY AND EQUIPMENT, net	289,273	298,564
OTHER ASSETS:		
Non-current deferred costs	104,154	99,799
Computer software, net of amortization	234,091	222,115
Other non-current assets	76,773	70,461
Customer relationships, net of amortization	97,536	104,085
Other intangible assets, net of amortization	39,678	35,706
Goodwill	552,853	552,853
Total other assets	1,105,085	1,085,019
Total assets	$ 1,718,095	$ 1,815,512
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 15,863	$ 14,596
Accrued expenses	67,555	85,411
Notes payable and current maturities of long term debt	—	200
Deferred revenues	245,170	343,525
Total current liabilities	328,588	443,732
LONG TERM LIABILITIES:		
Non-current deferred revenues	162,271	177,529
Non-current deferred income tax liability	197,346	188,601
Debt, net of current maturities	50,000	—
Other long-term liabilities	8,478	9,440
Total long term liabilities	418,095	375,570
Total liabilities	746,683	819,302
STOCKHOLDERS' EQUITY		
Preferred stock - $1 par value; 500,000 shares authorized, none issued	—	—
Common stock - $0.01 par value; 250,000,000 shares authorized;		
103,034,095 shares issued at December 31, 2016	1,030	1,029
102,903,971 shares issued at June 30, 2016;		
Additional paid-in capital	441,733	440,123
Retained earnings	1,508,668	1,431,192
Less treasury stock at cost		
25,410,212 shares at December 31, 2016;	(980,019)	(876,134)
24,208,517 shares at June 30, 2016		
Total stockholders' equity	971,412	996,210

Total liabilities and equity	$ 1,718,095	$ 1,815,512

See notes to condensed consolidated financial statements

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
REVENUE				
License	$849	$634	$1,543	$2,237
Support and service	337,515	320,219	670,561	627,966
Hardware	10,189	12,019	21,477	24,287
Total revenue	348,553	332,872	693,581	654,490
COST OF SALES				
Cost of license	59	498	311	680
Cost of support and service	191,269	181,989	377,161	356,703
Cost of hardware	6,818	7,958	15,436	16,726
Total cost of sales	198,146	190,445	392,908	374,109
GROSS PROFIT	150,407	142,427	300,673	280,381
OPERATING EXPENSES				
Selling and marketing	21,903	22,231	44,030	43,982
Research and development	20,873	18,862	40,611	37,416
General and administrative	19,025	16,547	36,008	33,659
Total operating expenses	61,801	57,640	120,649	115,057
OPERATING INCOME	88,606	84,787	180,024	165,324
INTEREST INCOME (EXPENSE)				
Interest income	60	91	167	204
Interest expense	(184)	(276)	(326)	(496)
Total interest income (expense)	(124)	(185)	(159)	(292)
INCOME BEFORE INCOME TAXES	88,482	84,602	179,865	165,032
PROVISION FOR INCOME TAXES	29,668	25,254	58,807	54,318
NET INCOME	$58,814	$59,348	$121,058	$110,714
Basic earnings per share	$0.76	$0.75	$1.55	$1.38
Basic weighted average shares outstanding	77,814	79,473	78,114	80,009
Diluted earnings per share	$0.75	$0.74	$1.54	$1.38
Diluted weighted average shares outstanding	78,180	79,770	78,512	80,252

See notes to condensed consolidated financial statements

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

	Six Months Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$121,058	$110,714
Adjustments to reconcile net income from operations to net cash from operating activities:		
Depreciation	24,892	25,973
Amortization	44,568	37,012
Change in deferred income taxes	8,745	6,267
Expense for stock-based compensation	4,230	5,112
(Gain)/loss on disposal of assets and businesses	671	(290)
Changes in operating assets and liabilities:		
Change in receivables	107,667	98,487
Change in prepaid expenses, deferred costs and other	(22,241)	(27,913)
Change in accounts payable	1,221	(4,280)
Change in accrued expenses	(18,339)	(6,687)
Change in income taxes	5,007	(4,204)
Change in deferred revenues	(113,612)	(92,911)
Net cash from operating activities	163,867	147,280
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for acquisitions, net of cash acquired	—	(8,275)
Capital expenditures	(17,405)	(31,506)
Proceeds from the sale of assets	830	2,747
Internal use software	(11,455)	(8,183)
Computer software developed	(41,673)	(47,903)
Net cash from investing activities	(69,703)	(93,120)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on credit facilities	50,000	100,000
Repayments on credit facilities	(200)	(52,374)
Purchase of treasury stock	(103,885)	(155,122)
Dividends paid	(43,582)	(39,972)
Proceeds from issuance of common stock upon exercise of stock options	1	1
Tax withholding payments related to share based compensation	(5,394)	(2,501)
Proceeds from sale of common stock	2,774	2,621
Net cash from financing activities	(100,286)	(147,347)
NET CHANGE IN CASH AND CASH EQUIVALENTS	$(6,122)	$(93,187)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$70,310	$148,313
CASH AND CASH EQUIVALENTS, END OF PERIOD	$64,188	$55,126

See notes to condensed consolidated financial statements

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

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

Description of the Company

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

Consolidation

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

Comprehensive Income

Comprehensive income for the three and six months ended December 31, 2016 and 2015 equals the Company's net income.

Property and Equipment and Intangible Assets

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Accumulated depreciation at December 31, 2016 totaled $350,717 and at June 30, 2016 totaled $328,159.

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 with an indefinite life (such as goodwill), over an estimated economic benefit period, generally three to twenty years. Accumulated amortization of intangible assets totaled $480,315 and $435,871 at December 31, 2016 and June 30, 2016, respectively.

Common Stock

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or borrowings on its existing line-of-credit. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At December 31, 2016, there were 25,410 shares in treasury stock and the Company had the remaining authority to repurchase up to 4,580 additional shares. The total cost of treasury shares at December 31, 2016 is $980,019. During the first six months of fiscal 2017, the Company repurchased 1,202 treasury shares for $103,885. At June 30, 2016, there were 24,209 shares in treasury stock and the Company had authority to repurchase up to 5,782 additional shares.

Dividends declared per share were $0.28 and $0.25, for the three months ended December 31, 2016 and 2015, respectively. Dividends declared per share for the six months ended December 31, 2016 and 2015 were $0.56 and $0.50, respectively.

Interim Financial Statements

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America applicable to interim condensed consolidated financial statements, and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes, which are included in its Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended June 30, 2016. 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, 2016.
In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary (consisting of normal recurring adjustments) to state fairly the financial

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position of the Company as of December 31, 2016, the results of its operations for the three and six months ending December 31, 2016 and 2015, and its cash flows for the six months ending December 31, 2016 and 2015. The condensed consolidated balance sheet at June 30, 2016 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 period ended December 31, 2016 are not necessarily indicative of the results to be expected for the entire year.

Litigation

We are subject to various routine legal proceedings and claims, including the following:

In 2013 a patent infringement lawsuit entitled DataTreasury Corporation v. Jack Henry & Associates, Inc. et. al. was filed against the Company, several subsidiaries and a number of customer financial institutions in the US District Court for the Eastern District of Texas. The complaint seeks damages, interest, injunctive relief, and attorneys' fees for the alleged infringement of two patents, as well as trebling of damage awards for alleged willful infringement. We believe we have strong defenses and have defended the lawsuit vigorously. A part of that defense has been the filing of challenges to the validity of plaintiff's patents in post-grant proceedings at the Patent Trial and Appeal Board ("PTAB") of the U.S. Patent and Trademark Office. In 2015, the PTAB issued decisions holding that all relevant claims of the plaintiff's patents are unpatentable and invalid. DataTreasury's appeal of the PTAB decisions to the U.S. Court of Appeals for the Federal Circuit was unsuccessful pursuant to decisions rendered on October 13, 2016. On January 11, 2017 DataTreasury petitioned the Supreme Court to review the Federal Court's affirmance. At this stage, we cannot make a reasonable estimate of possible loss or range of loss, if any, arising from this lawsuit.

NOTE 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

For cash equivalents, amounts receivable or payable and short-term borrowings, fair values approximate carrying value, based on the short-term nature of the assets and liabilities.

The Company's estimates of the fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The three levels of the hierarchy are as follows:

Level 1: inputs to the valuation are quoted prices in an active market for identical assets

Level 2: inputs to the valuation include quoted prices for similar assets in active markets that are observable either directly or indirectly

Level 3: valuation is based on significant inputs that are unobservable in the market and the Company's own estimates of assumptions that we believe market participants would use in pricing the asset

Fair value of financial assets, included in cash and cash equivalents, and financial liabilities is as follows:

	Estimated Fair Value Measurements			Total Fair
	Level 1	Level 2	Level 3	Value
December 31, 2016				
Financial Assets:				
Money market funds	$32,610	$—	$ —	$32,610
Certificate of Deposit	$—	$2,000	$ —	$2,000
Financial Liabilities:				
Revolving credit facility	$—	$50,000	$ —	$50,000
June 30, 2016				
Financial Assets:				
Money market funds	$35,782	$—	$ —	$35,782
Certificate of Deposit	$—	$1,000	$ —	$1,000

NOTE 3: RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers in May 2014. The new standard will supersede much of the existing

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authoritative literature for revenue recognition. In August 2015, the FASB also issued ASU No. 2015-14 which deferred the effective date of the new standard by one year, but allows early application as of the original effective date. We do not intend to adopt the provisions of the new standard early, so the standard and related amendments will be effective for the Company for its annual reporting period beginning July 1, 2018, including interim periods within that reporting period. In March 2016, the FASB issued ASU No. 2016-08, which addresses principal versus agent considerations under the new revenue standard. ASU No. 2016-10 and ASU No. 2016-12, and ASU No. 2016-20 also address specific aspects of the new standard. Entities are allowed to transition to the new standard by either recasting prior periods or recognizing the cumulative effect as of the beginning of the period of adoption. The Company is currently evaluating the newly issued guidance, including which transition approach will be applied, and continuing to assess all potential impacts of the standard. We expect the adoption of this standard to have a significant impact on our revenue recognition currently subject to Accounting Standards Codification (ASC) Topic 985.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This ASU requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability (same treatment as debt discounts). ASU No. 2015-03 is effective for the Company in its fiscal year ending June 30, 2017. In August 2015, the FASB issued ASU No. 2015-15, which clarified that for line-of-credit arrangements, debt issuance costs may continue to be presented as an asset. The Company currently does not have any debt that would fall into the scope of ASU 2015-03, and all of our debt issuance costs relate to our revolving credit facility. Therefore, this currently has no impact on our financial statements.

The FASB issued ASU No. 2016-02, Leases, in February 2016. This ASU aims to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and requiring disclosure of key information regarding leasing arrangements. ASU No. 2016-02 will be effective for Jack Henry's annual reporting period beginning July 1, 2019 and early adoption is permitted. The Company is currently assessing the impact this new standard will have on our consolidated financial statements.

The FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, in March 2016. The new standard is intended to simplify several aspects of the accounting and presentation of share-based payment transactions, including reporting of excess tax benefits and shortfalls, statutory minimum withholding considerations, and classification within the statement of cash flows. The standard allows a one-time accounting policy election to either account for forfeitures as they occur or continue to estimate them. ASU No. 2016-09 is effective for the Company’s annual reporting period beginning July 1, 2017. Management elected to early adopt this standard as of July 1, 2016 and has elected to continue our current practice of estimating forfeitures. The adoption of this standard had the following impacts on our condensed consolidated financial statements.

- Condensed consolidated statements of income- The new standard requires that the tax effects of share-based compensation be recognized in the provision for income taxes. Previously, these amounts were recognized in additional paid-in capital. For the quarter, we recognized $73 of net tax benefits as reductions of income tax expense, which reduced our effective income tax rate for the second quarter by 0.1%. There was no impact to earnings per share for the quarter. Net tax benefits related to share-based compensation awards of $2,344 for the six months ended December 31, 2016 were recognized as reductions of income tax expense. These tax benefits reduced our effective income tax rate for the year-to-date period by 1.3%, and caused an increase in basic and diluted earnings per share of $0.03 for the six months ended December 31, 2016. In addition, in calculating potential common shares used to determine diluted earnings per share, generally accepted accounting principles require us to use the treasury stock method. The new standard requires that assumed proceeds under the treasury stock method be modified to exclude the amount of excess tax benefits that would have been recognized in additional paid-in capital. These changes were applied on a prospective basis.
- Condensed consolidated statements of cash flows- The Company elected to apply the presentation requirements for cash flows related to excess tax benefits retrospectively to all periods presented which resulted in an increase to both net cash provided by operations and net cash used in financing of $301 for the six months ended December 31, 2015. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented on our consolidated cash flows statements since such cash flows have historically been

presented as a financing activity.
ASU 2016-15 issued by the FASB in August 2016 clarifies cash flow classification of eight specific cash flow issues and is effective for our annual reporting period beginning July 1, 2018. Early adoption is permitted. We don't expect any significant impact to our financial statements as a result of this standard.

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NOTE 4. DEBT

Capital leases
The Company had previously entered into various capital lease obligations for the use of certain computer equipment, but has no capital lease obligations at December 31, 2016. At June 30, 2016, capital lease obligations totaled $200.
Revolving credit facility
The revolving credit facility allows for borrowings of up to $300,000, which may be increased by the Company at any time until maturity to $600,000. The credit facility bears interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the highest of (i) the Prime Rate for such day, (ii) the sum of the Federal Funds Effective Rate for such day plus 0.50% and (iii) the Eurocurrency Rate for a one month Interest Period on such day for dollars plus 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The credit facility is guaranteed by certain subsidiaries of the Company. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of December 31, 2016, the Company was in compliance with all such covenants. The revolving loan terminates February 20, 2020 and at December 31, 2016, there was a $50,000 outstanding revolving loan balance, which was borrowed on December 12, 2016. There was no outstanding balance at June 30, 2016.
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 April 30, 2017. At December 31, 2016, no amount was outstanding. There also was no balance outstanding at June 30, 2016.
Interest
The Company paid interest of $188 and $333 during the six months ended December 31, 2016 and 2015, respectively.

NOTE 5. INCOME TAXES

The effective tax rate was 33.5% of income before income taxes for the quarter ended December 31, 2016, compared to 29.9% for the same quarter in fiscal 2016. The increase in the effective tax rate was primarily due to the recognition of a tax benefit included in the second quarter of fiscal 2016 from the retroactive extension of the federal Research and Experimentation Credit ("R&E Credit").
The Company paid income taxes, net of refunds, of $44,539 and $52,254 in the six months ended December 31, 2016 and 2015, respectively.
At December 31, 2016, the Company had $6,334 of gross unrecognized tax benefits, $4,781 of which, if recognized, would affect our effective tax rate. We had accrued interest and penalties of $1,284 and $1,415 related to uncertain tax positions at December 31, 2016 and 2015, respectively.
During the period ended June 30, 2016, the Internal Revenue Service commenced an examination of the Company’s U.S. federal income tax returns for the fiscal years ended June 30, 2014 and 2015. The examination was completed during the quarter ending December 31, 2016. The closing of the examination did not result in a material change to the Company’s financial statements.
The U.S. federal and state income tax returns for fiscal 2013 and all subsequent years remain subject to examination as of December 31, 2016 under statute of limitations rules. We anticipate potential changes due to lapsing statutes of limitations and examination closures could reduce the unrecognized tax benefits balance by $1,000 - $2,000 within twelve months of December 31, 2016.

NOTE 6. STOCK-BASED COMPENSATION

Our operating income for the three months ended December 31, 2016 and 2015 included $3,032 and $3,142 of stock-based compensation costs, respectively. For the six months ended December 31, 2016 and 2015, stock-based compensation totaled $4,230 and $5,112, respectively.

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2015 Equity Incentive Plan and 2005 Non-Qualified Stock Option Plan

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, upon the expiration of one year following notification of a deceased optionee, or 10 years after grant.

The Company previously issued options to outside directors under the 2005 Non-Qualified Stock Option Plan (“2005 NSOP”). No additional stock options may be issued under this plan.

A summary of option plan activity under these plans is as follows:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding July 1, 2016	50	22.14	
Granted	32	87.27	
Forfeited	—	—	
Exercised	—	—	
Outstanding December 31, 2016	82	$ 47.41	$ 3,379
Vested and Expected to Vest December 31, 2016	82	$ 47.41	$ 3,379
Exercisable December 31, 2016	50	$ 22.14	$ 3,332

The Company utilized a Black-Scholes option pricing model to estimate fair value of the stock option grants at the grant date. Assumptions such as expected life, volatility, risk-free interest rate, and dividend yield impact the fair value estimate. These assumptions are subjective and generally require significant analysis and judgment to develop. The risk free interest rate used in our estimate was determined from external data, while volatility, expected life, and dividend yield assumptions were derived from our historical experience with share-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances. The assumptions used in estimating fair value and resulting compensation expenses at the grant dates are as follows:

Expected Life (years)	6.50	
Volatility	19.60	%
Risk free interest rate	1.24	%
Dividend yield	1.28	%

At December 31, 2016, there was $416 of compensation cost yet to be recognized related to outstanding options. The weighted average remaining contractual term on options currently exercisable as of December 31, 2016 was 2.50 years.

2015 Equity Incentive Plan and 2005 Restricted Stock Plan

The Company issues both share awards and unit awards under the 2015 EIP, and previously issued these through the 2005 Restricted Stock Plan. The following table summarizes non-vested share awards as of December 31, 2016, as well as activity for the six months then ended:

Share awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2016	58	44.95

Granted	17	87.27
Vested	(36)	35.42
Forfeited	(1)	65.52
Outstanding December 31, 2016	38	$ 72.81

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At December 31, 2016, there was $1,667 of compensation expense that has yet to be recognized related to non-vested restricted stock share awards, which will be recognized over a weighted-average period of 1.37 years.
The following table summarizes non-vested unit awards as of December 31, 2016, as well as activity for the six months then ended:

Unit awards	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding July 1, 2016	429	58.06	
Granted	118	76.40	
Vested	(134)	49.79	
Forfeited	(37)	54.14	
Outstanding December 31, 2016	376	$ 67.14	$ 33,334

The Company utilized a Monte Carlo pricing model customized to the specific provisions of the Company’s plan design to value unit awards subject to performance targets on the grant dates. The weighted average assumptions used in this model to estimate fair value at the measurement date and resulting values for 85 unit awards granted in fiscal 2017 are as follows:

Volatility	16.00 %
Risk free interest rate	0.93 %
Dividend yield	1.30 %
Stock Beta	0.684

The remaining 33 unit awards granted are not subject to performance targets, and therefore the estimated fair value at measurement date is valued in the same manner as restricted stock share award grants.
At December 31, 2016, there was $14,232 of compensation expense that has yet to be recognized related to non-vested restricted stock unit awards, which will be recognized over a weighted-average period of 1.51 years.

NOTE 7. 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,
2016	2015	2016