GRAHAM CORP
Form 10-K
June 02, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended March 31, 2015

or

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

For the transition period from   to   .

Commission File Number 1-8462

GRAHAM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**16-1194720**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
20 Florence Avenue, Batavia, New York	**14020**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code 585-343-2216

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

Title of each class	**Name of each exchange on which registered**
Common Stock (Par Value $.10)	**NYSE**

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

Title of Class

Preferred Stock Purchase Rights

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

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

Indicate by checkmark 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 þ No ¨

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

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

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

Large accelerated filer ¨	Accelerated filer þ	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2014, the last business day of the registrant s most recently completed second fiscal quarter, was $273,126,754. The market value calculation was determined using the closing price of the registrant s common stock on September 30, 2014, as reported on the NYSE (the exchange on which the registrant s common stock was then listed). For purposes of the foregoing calculation only, all directors, officers and the Employee Stock Ownership Plan of the registrant have been deemed affiliates.

As of May 22, 2015, the registrant had outstanding 10,138,983 shares of common stock, $.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement, to be filed in connection with the registrant s 2015 Annual Meeting of Stockholders to be held on July 30, 2015, are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this filing.

Table of Contents

Table of Contents

GRAHAM CORPORATION

Annual Report on Form 10-K

Year Ended March 31, 2015

Note: Portions of the registrant s definitive Proxy Statement, to be issued in connection with the registrant s 2015 Annual Meeting of Stockholders to be held on July 30, 2015, are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

Table of Contents

PART I

(Dollar amounts in thousands except per share data)

Item 1. ***Business***

Graham Corporation (we, us, our) is a global business that designs, manufactures and sells critical equipment for the energy, defense and chemical/petrochemical industries. Energy markets include oil refining, cogeneration, nuclear and alternative power. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. Graham s global brand is built upon our world-renowned engineering expertise in vacuum and heat transfer technology, responsive and flexible service and unsurpassed quality. We design and manufacture custom-engineered ejectors, vacuum pumping systems, surface condensers and vacuum systems. We are also a leading nuclear code accredited fabrication and specialty machining company. We supply components used inside reactor vessels and outside containment vessels of nuclear power facilities. Our equipment can also be found in other diverse applications such as metal refining, pulp and paper processing, water heating, refrigeration, desalination, food processing, pharmaceutical, heating, ventilating and air conditioning.

Our corporate headquarters are located in Batavia, New York. We have production facilities co-located with our headquarters in Batavia and also at our wholly-owned subsidiary, Energy Steel & Supply Co. (Energy Steel), located in Lapeer, Michigan. We also have a wholly-owned foreign subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. (GVHTT), located in Suzhou, China. GVHTT provides sales and engineering support for us in the People s Republic of China and management oversight throughout Southeast Asia.

We were incorporated in Delaware in 1983 and are the successor to Graham Manufacturing Co., Inc., which was incorporated in New York in 1936. As of March 31, 2015, we had 397 employees. Our stock is traded on the NYSE under the ticker symbol GHM .

Unless indicated otherwise, dollar figures in this Annual Report on Form 10-K are reported in thousands.

Our Products, Customers and Markets

Our products are used in a wide range of industrial process applications primarily in energy markets, including:

Petroleum Refining

- conventional oil refining
- oil sands extraction

Defense

- propulsion systems for nuclear-powered aircraft carriers and submarines

Chemical and Petrochemical Processing

- fertilizer plants

ethylene, methanol and nitrogen producing plants

plastics, resins and fibers plants

petrochemical intermediate plants

coal-to-chemicals plants

gas-to-liquids plants

Power Generation /Alternative Energy

nuclear power generation

fossil fuel plants

- biomass plants
- cogeneration power plants
- geothermal power plants
- ethanol plants

Other

- soap manufacturing plants
- air conditioning and water heating systems
- food processing plants
- pharmaceutical plants
- liquefied natural gas production facilities

Our customers include end users of our products in their manufacturing, refining and power generation processes, large engineering companies that build installations for companies in such industries, and the original equipment manufacturers, who combine our products with their equipment prior to its sale to end users.

Our products are sold by a team of sales engineers we employ directly as well as by independent sales representatives located worldwide. There may be short periods of time, a fiscal year for example, where one customer may make up greater than 10% of our business. However, if this occurs in multiple years, it is usually not the same customer, or the same project, over such a multi-year period.

Over a business cycle, domestic sales will generally range between 40% to 60% of total sales. The mix of domestic and international sales can vary from year to year.

A breakdown of our net sales by geographic area and product class for our fiscal years ended March 31, 2015, 2014 and 2013, which we refer to as fiscal 2015, fiscal 2014 and fiscal 2013 , respectively, is contained in Note 13 to our consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K and such breakdown is incorporated into this Item 1 by reference. We refer to our fiscal year ending March 31, 2016 as fiscal 2016 . Our backlog at March 31, 2015 was $113,811, compared with $112,108 at March 31, 2014.

Our Strengths

Our core strengths include:

- *We have strong brand recognition.* Over the past 79 years, we believe that we have built a reputation for top quality, reliable products and high standards of customer service. We have also established a large installed application base. As a result, the Graham name is well known not only by our existing customers, but also by many of our potential customers. We believe that the recognition of the

Graham brand allows us to capitalize on market opportunities in both existing and potential markets. Moreover, our wholly-owned subsidiary, Energy Steel, has more than a 30 year history of providing products and support to its customers, especially the U.S. nuclear power industry, and is a recognized brand name in its markets.

We custom engineer and manufacture high quality products and systems that address the particular needs of our customers. With 79 years of engineering expertise, we believe that we are renowned for our knowledge in vacuum and heat transfer technologies. We maintain strict quality control and manufacturing standards in order to manufacture products of the highest quality.

We have a global presence. Our products are used worldwide, and we have sales representatives located in many countries throughout the world.

We have a strong reputation. We believe that we have a well-deserved reputation for both placing customers first and for standing behind our products. We believe that our relationships are strong both with our existing customer base as well as with our key suppliers.

We have a highly trained workforce. We maintain a long-tenured, highly skilled and extremely flexible workforce.

Table of Contents

- *We have a strong balance sheet.* We maintain significant cash and investments on hand, and no bank debt, which we believe provides us with the flexibility to pursue our business strategy. Our defined benefit pension plan obligations are over funded.

- *We have a high quality credit facility*. Our credit facilities provide us with a $30,000 borrowing capacity that is expandable at our option to provide us with up to a total of $55,000 in borrowing capacity.

Our Strategy

We intend to strategically leverage and deploy our assets, including but not limited to, financial, technical, manufacturing and know-how, in order to capture expanded market share within the geographies and industries we serve, to expand revenue opportunities in adjacent and countercyclical markets and to continually improve our results of operations in order to:

- Generate sustainable earnings growth;

- Reduce earnings volatility;

- Improve our operating performance;

- Generate strong cash flow from operations; and

- Improve value provided to our customers.

To accomplish our objectives and strategic focus, we believe that we must:

- Successfully deploy corporate assets to expand market share in currently served industries, access and develop a stronger presence in industries where we do not have a historically strong presence, and pursue acquisitions, partnerships or other business combinations in order to enter new geographic or industrial markets or new product lines.

- Capitalize on the strength of the Graham and Energy Steel brands in order to both win more business in our traditional markets as well as enter new markets.

- Identify organic growth opportunities and consummate acquisitions where we believe our brand strength will provide us with the ability to expand and will complement our core businesses. We intend to extend our existing product lines, move into complementary product lines and expand our global sales presence in order to further broaden our existing markets and reach additional markets.

- Expand our market penetration in the domestic nuclear industry. We also intend to identify additional domestic and international opportunities to serve the commercial nuclear power industry.

- Expand our market presence in the U.S. Navy s Nuclear Propulsion Program. We plan to demonstrate our proficiency by successfully executing the complex Nuclear Propulsion Program orders that are currently in our backlog by controlling both cost and risk, providing high-quality custom fabrication to exacting military quality control requirements and through disciplined project management. We intend to become a preferred supplier of equipment to the Nuclear Propulsion Program for both surface and submarine vessels.

- Continue to invest in people and capital equipment to meet the anticipated long-term growth in demand for our products in the oil refining, petrochemical processing and power generation industries, especially in emerging markets.

- Continue to deliver the highest quality products and solutions that enable our customers to achieve their operating objectives. We believe that our high quality and technical expertise differentiates us from our competitors and allows us to win new orders based on value.

In order to effectively implement our strategy, we also believe that we must continually invest in and leverage our unique customer value enhancing differentiators, the keys of which are listed below:

- Invest in engineering resources and technology in order to advance our vacuum and heat transfer technology market penetration.

- Enhance our engineering capacity and capability, especially in connection with product design, in order to more quickly respond to existing and future customer demands.

Table of Contents

Invest in our manufacturing facilities to expand capacity where needed and identify out-sourced capacity to complement internal capacity.

Accelerate our ability to quickly and efficiently bid on available projects through our ongoing implementation of front-end bid automation and design processes.

Expand our capabilities and penetrate the existing sales channel and customer base in the nuclear market.

Invest in resources to further serve the U.S. Navy in our core competency areas of engineering and manufacturing, where our commercial capabilities meet U.S. Navy requirements.

Implement and expand upon our operational efficiencies through our ongoing refinement of our flexible manufacturing flow model as well as our achievement of other cost efficiencies.

Focus on improving quality to eliminate errors and rework, thereby reducing lead time.

Develop a cross-trained, flexible workforce able to adjust to variable product demand by our customers.

Competition

Our business is highly competitive. The principal bases on which we compete include technology, price, performance, reputation, delivery, and quality. Our competitors in our primary markets include:

NORTH AMERICA

Market	Principal Competitors
Refining vacuum distillation	Gardner Denver, Inc.
Chemicals/petrochemicals	Croll Reynolds Company, Inc.; Schutte Koerting; Gardner Denver, Inc.
Turbomachinery Original Equipment Manufacturer (OEM) refining, petrochemical	Ambassador; KEMCO; SPX Heat Transfer; Donghwa Entec Co., Ltd..; Oeltechnik GmbH
Turbomachinery OEM power and power producer	Holtec; Thermal Engineering International (USA), Inc.; KEMCO; SPX Heat Transfer; Maarky Thermal Systems
Nuclear	Dubose, Consolidated, Tioga, Nova, Joseph Oats, Energy & Process, Nusource
Navy Nuclear Propulsion Program / Defense	DC Fabricators, Joseph Oats, Triumph Aerospace, Xylem, PCC

INTERNATIONAL

Market	Principal Competitors
Refining vacuum distillation	Gardner Denver, Inc.; GEA Wiegand GmbH; Edwards, Ltd.; Korting Hannover AG
Chemicals/petrochemicals	Croll Reynolds Company, Inc.; Schutte Koerting; Gardner Denver, Inc.; GEA Wiegand GmbH; Korting Hannover AG; Edwards, Ltd.
Turbomachinery OEM refining, petrochemical	Donghwa Entec Co., Ltd.; Hangzhou Turbine Equipment Co., Ltd.; Chem Process Systems, Mazda (India), Oeltechnik GmbH;

		KEMCO
Turbomachinery OEM	power and power producer	Holtec; Thermal Engineering International; KEMCO;
		SPX Heat Transfer, Chem Process Systems, Mazda (India)

4

Table of Contents

Intellectual Property

Our success depends in part on our ability to protect our proprietary technology. We rely on a combination of patent, copyright, trademark, trade secret laws and contractual confidentiality provisions to establish and protect our proprietary rights. We also depend heavily on the brand recognition of the Graham and Energy Steel names in the marketplace.

Availability of Raw Materials

Historically, we have not been materially adversely impacted by the availability of raw materials.

Working Capital Practices

Our business does not require us to carry significant amounts of inventory or materials beyond what is needed for work in process. We do not provide rights to return goods, or payment terms to customers that we consider to be extended in the context of the industries we serve. However, we do provide for warranty claims.

Environmental Matters

We believe that we are in material compliance with applicable existing environmental laws and regulations. We do not anticipate that our compliance with federal, state and local laws regulating the discharge of material in the environment or otherwise pertaining to the protection of the environment will have a material adverse effect upon our capital expenditures, earnings or competitive position.

Seasonality

No material part of our business is seasonal in nature. However, our business is highly cyclical in nature as it depends on the willingness of our customers to invest in major capital projects.

Research and Development Activities

During fiscal 2015, fiscal 2014 and fiscal 2013, we spent $3,585, $3,436 and $3,579, respectively, on research and development activities related both to new products and services and the ongoing improvement of existing products and services.

Information Regarding International Sales

The sale of our products outside the U.S. accounted for a significant portion of our total revenue during our last three fiscal years. Approximately 36%, 38% and 47% of our revenue in fiscal 2015, fiscal 2014 and fiscal 2013, respectively, resulted from foreign sales. Sales in Asia constituted approximately 8%, 11% and 16% of our revenue in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Sales in the Middle East constituted approximately 8%, 4% and 14% of our revenue in fiscal 2015, fiscal 2014 and fiscal 2013, respectively. Our foreign sales and operations are subject to numerous risks, as discussed under the heading Risk Factors in Item 1A of Part I and elsewhere in this Annual Report on Form 10-K.

Employees

As of March 31, 2015, we had 397 employees. We believe that our relationship with our employees is good.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. Therefore, we file periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). The SEC maintains a website (located at www.sec.gov) that contains reports, proxy statements and other information for registrants that file electronically. Additionally, such reports may be read and copied at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. Information regarding the SEC s Public Reference Room can be obtained by calling 1-800-SEC-0330.

Table of Contents

We maintain a website located at www.graham-mfg.com. On our website, we provide a link to the SEC s website that contains the reports, proxy statements and other information we file electronically. We do not provide this information on our website because it is more cost effective for us to provide a link to the SEC s website. Copies of all documents we file with the SEC are available in print for any stockholder who makes a request. Such requests should be made to our Corporate Secretary at our corporate headquarters. The other information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

Item 1A. ***Risk Factors***

Our business and operations are subject to numerous risks, many of which are described below and elsewhere in this Annual Report on Form 10-K. If any of the events described below or elsewhere in this Annual Report on Form 10-K occur, our business and results of operations could be harmed. Additional risks and uncertainties that are not presently known to us, or which we currently deem to be immaterial, could also harm our business and results of operations.

Risks related to our business

The industries in which we operate are cyclical, and downturns in such industries may adversely affect our operating results.

A substantial portion of our revenue is derived from the sale of our products to companies in the chemical, petrochemical, petroleum refining and power generating industries and to the U.S. Navy, or to firms that design and construct facilities for these industries. The core industries in which our products are used are highly cyclical and have historically experienced severe downturns. The dramatic decline in global oil prices in the second half of calendar year 2014 that translated into an abrupt contraction in orders in the energy markets is the most recent example of the cyclical nature of our markets. We believe that for the long-term, we are in an expansion for demand for our products in the petrochemical, petroleum refining and power generating industries, however, the recent decline in oil prices confirms that cyclical downturns will occur periodically. A sustained or renewed deterioration in any of the industries we serve would materially harm our business and operating results because our customers would not likely have the resources necessary to purchase our products, nor would they likely have the need to build additional facilities or improve existing facilities. A cyclical downturn can occur suddenly and result in extremely different financial performance sequentially from quarter to quarter or on an annual comparative basis due to an inability to rapidly adjust costs.

The larger markets we serve include the petroleum refining and petrochemical industries. These industries are both highly cyclical in nature and dependent on the price of crude oil and natural gas as well as on the differential between the two prices. As a result, volatility in the prices of oil and natural gas may negatively impact our operating results.

The prices of crude oil and natural gas have historically been very volatile, as evidenced by the approximately 50% decline in oil prices in the second half of calendar 2014. Importantly, this caused a steep decline in orders from the energy markets. The increased supply and reduction of cost of natural gas in North America has also caused a significant change in the global energy markets in the past few years. During times of significant volatility in the market for crude oil or natural gas, our customers often refrain from placing orders until the market stabilizes. If our customers refrain from placing orders with us, our revenue would decline and there could be a material adverse effect on our business and results of operations. We believe that the global consumption of crude oil and natural gas will increase over the course of the next 20 years and that such increased consumption will result in a need to continually increase global capacity. Many of our products are purchased in connection with oil refinery construction, revamps and upgrades to expand global capacity.

The relative costs of oil, natural gas, nuclear power, hydropower and numerous forms of alternative energy production may have a material adverse impact on our business and operating results.

Global and regional energy supply comes from many sources, including oil, natural gas, coal, hydro, nuclear, solar, wind, geothermal and biomass, among others. A cost or supply shift among these sources could negatively impact our business opportunities going forward. A demand shift, where technological advances favor the utilization of one or a few sources of energy may also impact demand for our products. If demand shifts in a manner that increases energy utilization outside of our traditional customer base or expertise, our business and financial results could be materially adversely affected. In addition, governmental policy can affect the relative importance of various forms of energy sources. Non-fossil based sources may require government tax incentives to foster investment.

Our business is highly competitive. If we are unable to successfully implement our business strategy and compete against entities with greater resources than us or against competitors who have a relative cost advantage, we risk losing market share to current and future competitors.

We encounter intense competition in all of our markets. Some of our present and potential competitors may have substantially greater financial, marketing, technical or manufacturing resources. Our competitors may also be able to respond more quickly to new technologies or processes and changes in customer demands and they may be able to devote greater resources towards the development, promotion and sale of their products. Certain of our competitors may also have a cost advantage compared to us and may compete against us based on price. This may affect our ability to secure new business and maintain our level of profitability. In addition, our current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties that increase their ability to address the needs of our customers. Moreover, customer buying patterns can change if customers become more price sensitive and accepting of lower cost suppliers. If we cannot compete successfully against current or future competitors, our business will be materially adversely affected.

A change in our end use customers, our markets, or a change in the engineering procurement and construction companies serving our markets could harm our business and negatively impact our financial results.

Although we have long-term relationships with many of our end use customers and with many engineering, procurement and construction companies, the project management requirements, pricing levels and costs to support each customer and customer type are often different. As our markets continue to grow, and new market opportunities expand, we could see a shift in pricing as a result of facing competitors with lower production costs, which may have a material adverse impact on our results of operations and financial results. In certain developing geographies, the relative importance of cost versus quality may lead to decisions which look at short-term costs instead of total long-term cost of operations.

The loss of, or significant reduction or delay in, purchases by our largest customers could reduce our revenue and adversely affect our results of operations.

A small number of customers has accounted for a substantial portion of our historical net sales. For example, sales to our top ten customers accounted for 38%, 32% and 41% of consolidated net sales in fiscal 2015, 2014 and 2013, respectively. We expect that a limited number of customers will continue to represent a substantial portion of our sales for the foreseeable future. The loss of any of our major customers, a decrease or delay in orders or anticipated spending by such customers or a delay in the production of existing orders could materially adversely affect our revenues and results of operations.

A large percentage of our sales occur outside of the U.S. As a result, we are subject to the economic, political, regulatory and other risks of international operations.

For fiscal 2015, 36% of our revenue was from customers located outside of the U.S. Moreover, we maintain a subsidiary and a sales office in China. We believe that revenue from the sale of our products outside the U.S. will continue to account for a significant portion of our total revenue for the foreseeable future. We intend to continue to expand our international operations to the extent that suitable opportunities become available. Our foreign operations and sales could be adversely affected as a result of:

- nationalization of private enterprises and assets;
- political or economic instability in certain countries and regions, such as the ongoing instability throughout the Middle East or portions of the former Soviet Union;

Table of Contents

- differences in foreign laws, including increased difficulties in protecting intellectual property and uncertainty in enforcement of contract rights;
- the possibility that foreign governments may adopt regulations or take other actions that could directly or indirectly harm our business and growth strategy;
- credit risks;
- currency fluctuations;
- tariff and tax increases;
- export and import restrictions and restrictive regulations of foreign governments;
- shipping products during times of crisis or wars;
- our failure to comply with U.S. laws regarding doing business in foreign jurisdictions, such as the Foreign Corrupt Practices Act; and
- other factors inherent in maintaining foreign operations.

Global demand growth could be led by emerging markets, which could result in lower profit margins and increased competition.

The increase in global demand could be led by emerging markets. If this is the case, we may face increased competition from lower cost suppliers, which in turn could lead to lower profit margins on our products. Customers in emerging markets may also place less emphasis on our high quality and brand name than do customers in the U.S. and certain other industrialized countries where we compete. If we are forced to compete for business with customers that place less emphasis on quality and brand recognition than our current customers, our results of operations could be materially adversely affected.

The operations of our Chinese subsidiary may be adversely affected by China s evolving economic, political and social conditions.

We conduct our business in China primarily through a wholly-owned Chinese subsidiary. The results of operations and future prospects of our Chinese subsidiary are subject to evolving economic, political and social developments in China. In particular, the results of operations of our Chinese subsidiary may be adversely affected by, among other things, changes in China s political, economic and social conditions, changes in policies of the Chinese government, changes in laws and regulations or in the interpretation of existing laws and regulations, changes in foreign exchange regulations, measures that may be introduced to control inflation, such as interest rate increases, and changes in the rates or methods of taxation. In addition, changes in demand could result from increased competition from local Chinese manufacturers who have cost advantages or who may be preferred suppliers for Chinese end users. Also, Chinese commercial laws, regulations and interpretations applicable to non-Chinese owned market participants, such as us, are continually changing. These laws, regulations and interpretations could impose restrictions on our ownership or operations of our interests in China and have a material adverse effect on our business.

Intellectual property rights are difficult to enforce in China, which could harm our business.

Chinese commercial law is relatively undeveloped compared with the commercial law in many of our other major markets and limited protection of intellectual property is available in China as a practical matter. Although we take precautions in the operations of our Chinese subsidiary to protect our intellectual property, any local design or manufacture of products that we undertake in China could subject us to an increased risk that unauthorized parties will be able to copy or otherwise obtain or use our intellectual property, which could harm our business. We may also have limited legal recourse in the event we encounter patent or trademark infringers, which could have a material adverse effect on our business and results of operations.

Uncertainties with respect to the Chinese legal system may adversely affect the operations of our Chinese subsidiary.

Our Chinese subsidiary is subject to laws and regulations applicable to foreign investment in China. There are uncertainties regarding the interpretation and enforcement of laws, rules and policies in China. The Chinese legal system is based on written statutes, and prior court decisions have limited precedential value. Because many laws and regulations are relatively new and the Chinese legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform. Moreover, the relative inexperience of China s judiciary in many cases creates additional uncertainty as to the outcome of any litigation, and the interpretation of statutes and regulations may be subject to government policies reflecting domestic political agendas. Finally, enforcement of existing laws or contracts based on existing law may be uncertain and sporadic. For the preceding reasons, it may be difficult for us to obtain swift or equitable enforcement of laws ostensibly designed to protect companies like ours, which could have a material adverse effect on our business and results of operations.

Changes in energy policy regulations could adversely affect our business.

Energy policy in the U.S. and in the other countries where we sell our products is evolving rapidly and we anticipate that energy policy will continue to be an important legislative priority in the jurisdictions where we sell our products. It is difficult, if not impossible, to predict the changes in energy policy that could occur. The elimination of, or a change in, any of the current rules and regulations in any of our markets could create a regulatory environment that makes our end users less likely to purchase our products, which would have a material adverse effect on our business. Government subsidies or taxes, which favor or disfavor certain energy sources compared with others, could have a material adverse effect on our business and operating results.

Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and/or increase the cost of certain metals used in manufacturing our products.

SEC rules require disclosures of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured by companies filing public reports. This rule, which became effective for the 2013 calendar year, requires companies to perform due diligence, disclose, and report whether such minerals originate from the Democratic Republic of Congo or an adjoining country. This rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products. Moreover, the number of suppliers who provide conflict-free minerals may become limited. In addition, there may be significant costs associated with complying with the disclosure requirements. We also may not be able to sufficiently verify the origins of the relevant conflict minerals used in our products through the due diligence procedures that we have implemented, which could harm our reputation.

Efforts to reduce large U.S. federal budget deficits could result in government cutbacks in defense spending or in reduced incentives to pursue alternative energy projects, resulting in reduced demand for our products, which could harm our business and results of operations.

Our business strategy calls for us to continue to pursue defense-related projects as well as projects for end users in the alternative energy markets in the U.S. In recent years the U.S. federal government has incurred large budget deficits. In the event that U.S. federal government defense spending is reduced or alternative energy related incentives are reduced or eliminated in an effort to reduce federal budget deficits, projects related to defense or alternative energy may become less plentiful. The impact of such reductions could have a material adverse effect on our business and results of operations, as well as our growth opportunities.

U.S. Navy orders are subject to annual government funding. A disruption in expected funding could adversely impact our business.

One of our growth strategies is to increase our penetration of U.S. Navy related opportunities. Projects for the U.S. Navy and its contractors generally have a much longer order-to-shipment time period than our commercial orders. The time between receipt of an order to complete shipment can take three to five years, or possibly longer. Annual government funding is required to continue the production of this equipment. Disruption of government funding, short or long term, could impact the ability for us to continue our production activity on these orders. Such a disruption, should it occur, could adversely impact the sales and profitability of our business.

Table of Contents

Changes in tax policies and tax rates in the U.S. could result in adverse impacts for domestic manufacturing investments, resulting in reduced demand for our products.

Our business is dependent on significant manufacturing investment in the U.S. The impact of changes to U.S. tax policy around capital investment and related depreciation could reduce our customers willingness to invest in domestic capacity. The impact of such reductions could have a materially adverse affect on our business and operations.

We serve markets that are capital intensive. Volatility and disruption of the capital and credit markets and adverse changes in the global economy may negatively impact our operating results. Such volatility and disruption may also negatively impact our ability to access additional financing if and when needed.

If adverse economic and credit conditions occur, we would likely experience decreased revenue from our operations attributable to decreases in the spending levels of our customers. Moreover, adverse economic and credit conditions might also have a negative adverse effect on our cash flows if customers demand that we accept smaller project deposits and less frequent progress payments. In addition, adverse economic and credit conditions could lead to increased downward pricing pressure. Any of the foregoing could have a material adverse effect on our business and results of operations.

Adverse conditions in the capital and credit markets could also have a material adverse effect on our ability to obtain additional financing on commercially reasonable terms, or at all, should we determine such financing is necessary or desirable to maintain or expand our business or effectively pursue our business strategy.

Political and regulatory developments could make the utilization and growth of nuclear power as an energy source less desirable, which would harm the business and results of operations of our subsidiary Energy Steel.

A global event, such as a major earthquake or terrorist activity, may impact the desirability of operating nuclear power plants. These events can create uncertainties worldwide regarding, among other things, the desirability of operating existing nuclear power plants and the building of new or replacement nuclear power plants. Should public opinion or political pressure result in the closing of existing nuclear facilities or otherwise result in the failure of the nuclear power industry to grow, especially within the U.S., the business, results of operations and growth prospects of our subsidiary Energy Steel in the nuclear market could be materially adversely impacted.

In addition, the U.S. Nuclear Regulatory Commission, or NRC, performs operational and safety reviews of nuclear facilities in the U.S. It is possible that the NRC could take actions or impose regulations that adversely affect the demand for Energy Steel s products and services, or otherwise delay or prohibit construction of new nuclear power generation facilities, even temporarily. If any such event were to occur, the business or operations of Energy Steel could be materially adversely impacted.

A change in supply or cost of the materials used in our products could harm our profit margins.

Our profitability depends in part on the price and continuity of supply of the materials used in the manufacture of our products which, in many instances, are supplied by a limited number of sources. The availability and costs of these commodities may be influenced by, among other things, market forces of supply and demand, changes in world politics, labor relations between the producers and their work forces, export quotas, and inflation. Any restrictions on the supply of the materials used by us in manufacturing our products could significantly reduce our profit margins, which could harm our results of operations. Likewise, any efforts we may engage in to mitigate restrictions on the supply or price increases of materials by entering into long-term purchase agreements, by implementing productivity improvements or by passing cost increases on to our customers may not be successful. In addition, the ability of our suppliers to meet quality and delivery requirements can also impact our ability to meet commitments to customers. Future shortages or lower cost of raw materials could result in decreased sales as well as margins, or otherwise materially adversely affect our business.

We are subject to contract cancellations and delays by our customers, which may adversely affect our operating results.

The value of our backlog as of March 31, 2015 was $113,811. Our backlog can be significantly affected by the timing of large orders. The amount of our backlog at March 31, 2015 is not necessarily indicative of future backlog levels or the rate at which our backlog will be recognized as sales. Although historically the amount of modifications and terminations of our orders has not been material compared with our total contract volume, customers can, and sometimes do, terminate or modify their orders. This generally occurs more often in times of end market or capital market turmoil. As evidence of this, we had two orders totaling $5,895 cancelled in the fourth quarter of fiscal 2015. We cannot predict whether cancellations will occur or accelerate in the future. Although certain of our contracts in backlog may contain provisions allowing for us to assess cancellation charges to our customers to compensate us for costs incurred on cancelled contracts, cancellations of purchase orders or modifications made to existing contracts could substantially and materially reduce our backlog and, consequently, our future sales and results of operations. Moreover, delay of contract execution by our customers can result in volatility in our operating results.

Our current backlog contains a number of large orders from the U.S. Navy project. In addition, we are continuing to pursue business in these end markets which offer large multi-year projects which have an added risk profile beyond that of our historic customer base. A delay, long term extension or cancellation in any of these projects could have a material adverse effect on our business and results of operations.

Our accounts receivables and unbilled revenue may be at potential risk if a project is terminated or canceled or if our customers encounter financial difficulties.

Our contracts often require us to satisfy or achieve certain milestones in order to receive payment for the work performed. In general, payments to us are such that we are ahead of our costs, however, if the customer does not proceed with the completion of the project or if the customer defaults on its payment obligations, we may face difficulties in collecting payment of amounts due to us. If we are unable to collect amounts owed to us, this would have an adverse effect on our results of operations, financial position and cash flows.

If we are unable to effectively outsource a portion of our production during times when we are experiencing strong demand, our results of operations might be adversely affected. In addition, outsourcing may negatively affect our profit margins.

We from time to time increase our manufacturing capacity through outsourcing selected fabrication processes. We could experience difficulty in outsourcing if customers demand that our products be manufactured by us exclusively. Furthermore, our ability to effectively outsource production could be adversely affected by worldwide manufacturing capacity. If we are unable to effectively outsource our production capacity when circumstances warrant, our results of operations could be materially adversely affected and we might not be able to deliver products to our customers on a timely basis. In addition, any disputes between us and the entities that we outsource to may delay our ability to fulfill our obligations to our customers, which may harm our reputation and in turn could have a material adverse effect on our business and results of operations. Further, outsourcing to complete our products and services can increase the costs associated with such products and services. If we rely too heavily on outsourcing and are not able to increase our own production capacity during times when there is high demand for our products and services, our profit margins may be negatively impacted.

Our exposure to fixed-price contracts and the timely completion of such contracts could negatively impact our results of operations.

A substantial portion of our sales is derived from fixed-price contracts, which may involve long-term fixed price commitments by us to our customers. While we believe our contract management processes are strong, we nevertheless could experience difficulties in executing large contracts, including but not limited to, cost overruns, supplier failures and customer disputes. To the extent that any of our fixed-price contracts are delayed, our subcontractors fail to perform, contract counterparties successfully assert claims against us, the original cost estimates in these or other contracts prove to be inaccurate or the contracts do not permit us to pass increased costs on to our customers, our profitability from a particular contract may decrease or losses may be incurred, which, in turn, could have a material adverse effect on our business and results of operations.

Table of Contents

We utilize percentage of completion accounting on the majority of our sales. Changes in estimates for production could result in a reduction or elimination of previously reported sales and earnings.

For the majority of our sales, cost of goods sold and operating profit are recognized using percentage of completion method of accounting. This accounting method requires updated recognition of sales and cost for each project on a quarterly basis. If the portion of a project is under or over-estimated, a correction is required to be made in the current period. Corrections for large projects could significantly impact short term financial results. Large revisions could reverse sales, costs and earnings reported in prior periods.

If we lose any member of our management team and we experience difficulty in finding a qualified replacement, our business would be harmed.

Competition for qualified management and key technical and sales personnel in our industry is intense. Moreover, our technology is highly specialized and it may be difficult to replace the loss of any of our key technical and sales personnel. Many of the companies with which we compete for management and key technical and sales personnel have greater financial and other resources than we do or are located in geographic areas which may be considered by some to be more desirable places to live. If we are not able to retain any of our key management, technical or sales personnel, it could have a material adverse effect on our business and results of operations.

A dramatic short-term change in our end markets and our reaction to it may impact our ability to execute our strategic plan over the long term.

Execution of our strategic plan requires us to invest in our equipment, people and other resources with a view toward the long term. Achieving our long-term objectives may require us to pre-invest and add costs to our business before the matching revenue occurs. This is necessary to ensure that the development of our employees is such that we may effectively serve our customers. When there is a dramatic and unforeseen change in market conditions, which affects our customers and therefore our business, we may have to choose between continuing to pre-invest, which will impact near-term profitability or to eliminate costs which may impede our long-term ability to execute our strategic plan.

During certain high demand periods, there can be a shortage of skilled production workers, especially those with high-end welding capabilities. We could experience difficulty hiring or replacing those individuals, which could adversely affect our business.

Our fabrication processes require highly skilled production workers, especially welders. Welding has not been an educational field that has been popular over the past few decades as manufacturing has moved overseas. If we were to be unable to retain, hire or train an adequate number of individuals with high-end welding capability, this could impact our ability to achieve our financial objectives. In addition, if demand for highly skilled production workers were to significantly outstrip supply, wages for these skilled workers could dramatically increase in our and related industries and that could affect our financial performance.

If we are unable to make necessary capital investments or respond to pricing pressures, our business may be harmed.

In order to remain competitive, we need to invest continuously in manufacturing, customer service and support, research and development and marketing. From time to time we also have to adjust the prices of our products to remain competitive. We may not have available sufficient financial or other resources to continue to make the investment necessary to lower our production costs and help us maintain our competitive position, which could have a material adverse effect on our business and results of operations.

Our acquisition strategy may not be successful or may increase business risk.

The success of our acquisition strategy will depend, in part, on our ability to identify suitable companies or businesses to purchase and then successfully negotiate and close acquisition transactions. In addition, our success depends in part on our ability to integrate acquisitions and realize the anticipated benefits from combining the acquisition with our historical business, operations and management. We cannot provide any assurances that we

Table of Contents

will be able to complete any acquisitions and then successfully integrate the business and operations of those acquisitions without encountering difficulties, including unanticipated costs, difficulty in retaining customers and supplier or other relationships, failure to retain key employees, diversion of our management s attention, failure to integrate information and accounting systems or establish and maintain proper internal control over financial reporting. Moreover, as part of the integration process, we must incorporate an acquisition s existing business culture and compensation structure with our existing business. If we are not able to efficiently integrate an acquisition s business and operations into our organization in a timely and efficient manner, or at all, the anticipated benefits of the acquisition may not be realized, or it may take longer to realize these benefits than we currently expect, either of which could have a material adverse effect on our business or results of operations.

Should a portion of our intangible assets be impaired, results of operations could be materially adversely affected.

Our balance sheet includes intangible assets, including goodwill and other separately identifiable intangible assets, primarily as a result of our acquisition of Energy Steel. The value of these intangible assets may increase in the future if we complete additional acquisitions as part of our overall business strategy. We are required to review our intangible assets for impairment on an annual basis, or more frequently if certain indicators of permanent impairment arise. Factors that could indicate that our intangible assets are impaired could include, among other things, a decline in our stock price and market capitalization, lower than projected operating results and cash flows, and slower than expected growth rates in our markets. If a portion of our intangible assets becomes impaired as a result of such a review, the impaired portion of such assets would have to be written-off during that period. Such a write-off could have a material adverse effect on our business and results of operations.

If we become subject to product liability, warranty or other claims, our results of operations and financial condition could be adversely affected.

The manufacture and sale of our products exposes us to potential product liability claims, including those that may arise from failure to meet product specifications, misuse or malfunction of our products, design flaws in our products, or use of our products with systems not manufactured or sold by us. For example, our equipment is installed in facilities that operate dangerous processes and the misapplication, improper installation or failure of our equipment may result in exposure to potentially hazardous substances, personal injury or property damage.

Provisions contained in our contracts with customers that attempt to limit our damages may not be enforceable or may fail to protect us from liability for damages and we may not negotiate such contractual limitations of liability in certain circumstances. Our insurance may not cover all liabilities nor may our historical experience reflect any liabilities we may face in the future. Our risk of liability may increase as we manufacture more complex or larger projects. We also may not be able to continue to maintain such insurance at a reasonable cost or on reasonable terms, or at all. Any material liability not covered by provisions in our contracts or by insurance could have a material adverse effect on our business and financial condition.

Furthermore, if a customer suffers damage as a result of an event related to one of our products, even if we are not at fault, they may reduce their business with us. We may also incur significant warranty claims, which are not covered by insurance. In the event a customer ceases doing business with us as a result of a product malfunction or defect, perceived or actual, or if we incur significant warranty costs in the future, there could be a material adverse effect on our business and results of operations.

If we fail to introduce enhancements to our existing products or to keep abreast of technological changes in our markets, our business and results of operations could be adversely affected.

Although technologies in the vacuum and heat transfer areas are well established, we believe our future success depends, in part, on our ability to enhance our existing products and develop new products in order to continue to meet customer demands. Our failure to introduce new or enhanced products on a timely and cost-competitive basis, or the development of processes that make our existing technologies or products obsolete could have a material adverse effect on our business and results of operations.

If third parties infringe upon our intellectual property or if we were to infringe upon the intellectual property of third parties, we may expend significant resources enforcing or defending our rights or suffer competitive injury.

Our success depends in part on our proprietary technology. We rely on a combination of patent, copyright, trademark, trade secret laws and confidentiality provisions to establish and protect our proprietary rights. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer. We may also be required to spend significant resources to monitor and police our intellectual property rights. Similarly, if we were found to have infringed on the intellectual property rights of others, our competitive position could suffer. Furthermore, other companies may develop technologies that are similar or superior to our technologies, duplicate or reverse engineer our technologies or design around our proprietary technologies. Any of the foregoing could have a material adverse effect on our business and results of operations.

In some instances, litigation may be necessary to enforce our intellectual property rights and protect our proprietary information, or to defend against claims by third parties that our products infringe their intellectual property rights. Any litigation or claims brought by or against us, whether with or without merit, could result in substantial costs to us and divert the attention of our management, which could materially harm our business and results of operations. In addition, any intellectual property litigation or claims against us could result in the loss or compromise of our intellectual property and proprietary rights, subject us to significant liabilities, require us to seek licenses on unfavorable terms, prevent us from manufacturing or selling certain products or require us to redesign certain products, any of which could have a material adverse effect on our business and results of operations.

We are subject to foreign currency fluctuations which may adversely affect our operating results.

We are exposed to the risk of currency fluctuations between the U.S. dollar and the currencies of the countries in which we sell our products to the extent that such sales are not based on U.S. dollars. Currency movements can affect sales in several ways, the foremost being our ability to compete for orders against foreign competitors that base their prices on relatively weaker currencies. Business lost due to competition for orders against competitors using a relatively weaker currency cannot be quantified. In addition, cash can be adversely impacted by the conversion of sales made by us in a foreign currency to U.S. dollars. While we may enter into currency exchange rate hedges from time to time to mitigate these types of fluctuations, we cannot remove all fluctuations or hedge all exposures and our earnings are impacted by changes in currency exchange rates. In addition, if the counter-parties to such exchange contracts do not fulfill their obligations to deliver the contractual foreign currencies, we could be at risk for fluctuations, if any, required to settle the obligation. Any of the foregoing could adversely affect our business and results of operations. At March 31, 2015, we held no forward foreign currency exchange contracts.

Changes in our effective tax rate and tax policies may impact our profitability.

We are subject to income and other taxes in the U.S. and China. A change in tax laws or interpretation of tax laws, introduction of new tax accounting standards and regulation, our global mix of earnings, the ability to utilize deferred tax assets and changes in uncertain tax positions could affect our effective tax rate and impact the financial performance of the company. Changes in tax laws of other jurisdictions could impact the profitability of our competitors, which could affect our competitive position relative to those competitors.

Security threats and other sophisticated computer intrusions could harm our information systems, which in turn could harm our business and financial results.

We utilize information systems and computer technology throughout our business. We store sensitive data, proprietary information and perform engineering designs and calculations on these systems. Information systems are subject to threats and sophisticated computer crimes, which pose a risk to the stability and security of our business. A failure or breach in security could expose our company as well as our customers and suppliers to risks of misuse of information, compromising confidential information and technology, destruction of data, production disruptions and other business risks which could damage our reputation, competitive position and financial results of our operations. In addition, defending ourselves against these threats may increase costs or slow operational efficiencies of our business. If any of the foregoing were to occur, it could have a material adverse effect on our business and results of operations.

We face potential liability from asbestos exposure and similar claims that could result in substantial costs to us as well as divert attention of our management, which could have a material adverse effect on our business and results of operations.

We are a defendant in a number of lawsuits alleging illnesses from exposure to asbestos or asbestos-containing products and seeking unspecified compensatory and punitive damages. We cannot predict with certainty the outcome of these lawsuits or whether we could become subject to any similar, related or additional lawsuits in the future. In addition, because some of our products are used in systems that handle toxic or hazardous substances, any failure or alleged failure of our products in the future could result in litigation against us. For example, a claim could be made under various regulations for the adverse consequences of environmental contamination. Any litigation brought against us, whether with or without merit, could result in substantial costs to us as well as divert the attention of our management, which could have a material adverse effect on our business and results of operations.

Any failure to comply with the United States Foreign Corrupt Practices Act could adversely impact our competitive position and subject us to penalties and other adverse consequences, which could harm our business and results of operations.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits U.S. companies from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Many foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in certain of the jurisdictions in which we may operate or sell our products. While we strictly prohibit our employees and agents from engaging in such conduct and have established procedures, controls and training to prevent such conduct from occurring, it is possible that our employees or agents will engage in such conduct and that we might be held responsible. If our employees or other agents are alleged or are found to have engaged in such practices, we could incur significant costs and suffer severe penalties or other consequences that may have a material adverse effect on our business, financial condition and results of operations.

Risks related to the ownership of our common stock

Provisions contained in our certificate of incorporation and bylaws could impair or delay stockholders ability to change our management and could discourage takeover transactions that our stockholders might consider to be in their best interests.

Provisions of our certificate of incorporation and bylaws could impede attempts by our stockholders to remove or replace our management and could discourage others from initiating a potential merger, takeover or other change of control transaction, including a potential transaction at a premium over the market price of our common stock, that our stockholders might consider to be in their best interests. Such provisions include:

- We could issue shares of preferred stock with terms adverse to our common stock. Under our certificate of incorporation, our Board of Directors is authorized to issue shares of preferred stock and to determine the rights, preferences and privileges of such shares without obtaining any further approval from the holders of our common stock. We could issue shares of preferred stock with voting and conversion rights that adversely affect the voting power of the holders of our common stock, or that have the effect of delaying or preventing a change in control of our company.

- Only a minority of our directors may be elected in a given year. Our bylaws provide for a classified Board of Directors, with only approximately one-third of our Board elected each year. This provision makes it more difficult to effect a change of control because at least two annual stockholder meetings are necessary to replace a majority of our directors.

- Our bylaws contain advance notice requirements. Our bylaws also provide that any stockholder who wishes to bring business before an annual meeting of our stockholders or to nominate candidates for election as directors at an annual meeting of our stockholders must deliver advance notice of their proposals to us before the meeting. Such advance notice provisions may have the effect of making it more difficult to introduce business at stockholder meetings or nominate candidates for election as director.

Our certificate of incorporation requires supermajority voting to approve a change of control transaction. Seventy-five percent of our outstanding shares entitled to vote are required to approve any merger, consolidation, sale of all or substantially all of our assets and similar transactions if the other party to such transaction owns 5% or more of our shares entitled to vote. In addition, a majority of the shares entitled to vote not owned by such 5% or greater stockholder are also required to approve any such transaction.

Amendments to our certificate of incorporation require supermajority voting. Our certificate of incorporation contains provisions that make its amendment require the affirmative vote of both 75% of our outstanding shares entitled to vote and a majority of the shares entitled to vote not owned by any person who may hold 50% or more of our shares unless the proposed amendment was previously recommended to our stockholders by an affirmative vote of 75% of our Board. This provision makes it more difficult to implement a change to our certificate of incorporation that stockholders might otherwise consider to be in their best interests without approval of our Board.

Amendments to our bylaws require supermajority voting. Although our Board of Directors is permitted to amend our bylaws at any time, our stockholders may only amend our bylaws upon the affirmative vote of both 75% of our outstanding shares entitled to vote and a majority of the shares entitled to vote not owned by any person who owns 50% or more of our shares. This provision makes it more difficult for our stockholders to implement a change they may consider to be in their best interests without approval of our Board.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

Our corporate headquarters, located at 20 Florence Avenue, Batavia, New York, consists of a 45,000 square foot building. Our manufacturing facilities, also located in Batavia, consist of approximately 33 acres and contain about 260,000 square feet in several buildings, including 206,000 square feet in manufacturing facilities, 48,000 square feet for warehousing and a 6,000 square-foot building for product research and development. We also lease approximately 15,000 square feet of office space and 45,000 square feet of manufacturing facilities for our subsidiary, Energy Steel, located in Lapeer, Michigan. Additionally, we lease an approximately 1,500 square foot U.S. sales office in Houston, Texas and GVHTT leases an approximately 4,900 square foot sales and engineering office in Suzhou, China.

We believe that our properties are generally in good condition, are well maintained, and are suitable and adequate to carry on our business.

Item 3. *Legal Proceedings*

The information required by this Item 3 is contained in Note 15 to our consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K and is incorporated herein by reference.

Item 4. *Mine Safety Disclosures*

Not applicable.

Table of Contents

PART II

(Amounts in thousands, except per share data)

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our common stock is traded on the NYSE exchange under the symbol GHM . As of May 22, 2015, there were 10,139 shares of our common stock outstanding that were held by approximately 148 stockholders of record.

The following table shows the high and low per share prices of our common stock for the periods indicated[(1)].

	High	Low
Fiscal year 2015		
First quarter	$ 34.88	$ 26.20
Second quarter	35.35	27.99
Third quarter	34.65	26.06
Fourth quarter	28.86	20.58
Fiscal year 2014		
First quarter	$ 31.41	$ 22.36
Second quarter	38.96	30.26
Third quarter	41.94	32.95
Fourth quarter	37.23	30.23

Subject to the rights of any preferred stock we may then have outstanding, the holders of our common stock are entitled to receive dividends as may be declared from time to time by our Board of Directors out of funds legally available for the payment of dividends. Dividends declared per share by our Board of Directors for the first, second, third and fourth quarters of fiscal 2015 were $.04, $.04, $.04 and $.08, respectively. Dividends declared per share for the first, second, third and fourth quarters of fiscal 2014 were $.03, $.03, $.03 and $.04, respectively. There can be no assurance that we will pay cash dividends in any future period or that the level of cash dividends paid by us will remain constant.

Our senior credit facility contains provisions pertaining to the maintenance of a maximum funded debt to earnings before interest expense, income taxes, depreciation and amortization, or EBITDA, ratio and a minimum level of earnings before interest expense and income taxes to interest ratio as well as restrictions on the payment of dividends to stockholders. The facility limits the payment of dividends to stockholders to 25% of net income if our funded debt to EBITDA ratio is greater than 2.0 to 1. As of March 31 and May 30, 2015 we did not have any funded debt outstanding. More information regarding our senior credit facility can be found in Note 7 to the Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

On January 29, 2015, our Board of Directors authorized a stock repurchase program. Under the stock repurchase program, up to $18,000 of our common stock is permitted to be repurchased by us from time to time either in the open market or through privately negotiated transactions.

(1) The historical prices for our common stock prior to May 2, 2014 is based on the high and low per share prices on the NYSE MKT exchange, where our common stock was then listed. On such date our common stock began trading on the NYSE.

Table of Contents

Item 6. ***Selected Financial Data***

GRAHAM CORPORATION FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Amounts in thousands, except per share data)

(for fiscal years ended March 31)

	2015	2014	2013	2012	2011(1)
Operations:					
Net sales	$ 135,169	$ 102,218	$ 104,973	$ 103,186	$ 74,235
Gross profit	41,804	31,812	31,822	32,635	21,851
Gross profit percentage	30.9%	31.1%	30.3%	31.6%	29.4%
Net income	14,735	10,145	11,148	10,553	5,874
Cash dividends	2,026	1,308	899	793	790
Common stock:					
Basic earnings from continuing operations per share	$ 1.46	$ 1.01	$ 1.11	$ 1.06	$ .59
Diluted earnings from continuing operations per share	1.45	1.00	1.11	1.06	.59
Stockholders equity per share	11.50	10.49	9.30	8.20	7.47
Dividends declared per share	.20	.13	.09	.08	.08
Market price range of common stock					
High	35.35	41.94	24.80	26.30	24.58
Low	20.58	22.36	16.20	14.36	13.50
Average common shares outstanding diluted	10,143	10,104	10,051	9,998	9,958
Financial data at March 31:					
Cash and cash equivalents and investments	$ 60,271	$ 61,146	$ 51,692	$ 41,688	$ 43,083
Working capital	81,367	71,346	64,026	52,730	44,493
Capital expenditures	5,300	5,263	1,655	3,243	1,979
Depreciation	2,079	1,977	1,851	1,685	1,334
Total assets	154,654	141,634	126,733	114,977	118,071
Long-term debt, including capital lease obligations	98	136	127	203	116
Stockholders equity	116,551	105,908	92,995	81,620	73,655

(1) The financial data presented for fiscal 2011 includes the financial results of Energy Steel from the date of acquisition, which was December 14, 2010.

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

(Amounts in thousands, except per share data)

Overview

We are a global business that designs, manufactures and sells critical equipment for the energy, defense and chemical/petrochemical industries. Energy markets include oil refining, cogeneration, nuclear and alternative power. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. Graham s global brand is built upon our world-renowned engineering expertise in vacuum and heat transfer technology, responsive and flexible service and unsurpassed quality. We design and manufacture custom-engineered ejectors, vacuum pumping systems, surface condensers and vacuum systems. We are also a leading nuclear code accredited fabrication and specialty machining company. We supply components used inside reactor vessels and outside containment vessels of nuclear power facilities. Our equipment can also be found in other diverse applications such as metal refining, pulp and paper processing, water heating, refrigeration, desalination, food processing, pharmaceutical, heating, ventilating and air conditioning.

Our corporate headquarters are located in Batavia, New York. We have production facilities co-located with our headquarters in Batavia and also at our wholly-owned subsidiary, Energy Steel & Supply Co. (Energy Steel), located in Lapeer, Michigan. We also have a wholly-owned foreign subsidiary, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. (GVHTT), located in Suzhou, China. GVHTT provides sales and engineering support for us in the People s Republic of China and management oversight throughout Southeast Asia.

Highlights

Highlights for our fiscal year ended March 31, 2015, which we refer to as fiscal 2015 include:

- Net income and income per diluted share for fiscal 2015, were $14,735 and $1.45 compared with net income and income per diluted share of $10,145 and $1.00, respectively, for the fiscal year ended March 31, 2014, which we refer to as fiscal 2014. Net income and income per diluted share for fiscal 2015 were $15,899 and $1.57 excluding the impact of a nonrecurring restructuring charge. Net income increased 57% compared with the prior year on this basis.

- Net sales for fiscal 2015 were a record $135,169, up 32% compared with $102,218 for fiscal 2014.

- Operating cash flow for fiscal 2015 was $6,279, down from $15,230 in fiscal 2014.

- Orders received in fiscal 2015 were a record $136,533, up 7% compared with fiscal 2014, when orders were $128,152.

- Backlog on March 31, 2015 was a fiscal year end record at $113,811, up 2% from backlog of $112,108 on March 31, 2014.

- Gross profit and operating margins for fiscal 2015 were 30.9% and 16.0% compared with 31.1% and 14.3%, respectively, for fiscal 2014. Fiscal 2015 operating margin was 17.2%, excluding the impact of nonrecurring restructuring expenses.

- Cash and cash equivalents and short-term investments at March 31, 2015 were $60,271 compared with $61,146 as of March 31, 2014.

- At fiscal year end, we had a solid balance sheet that was free of bank debt and which we believe provides us with the financial flexibility to pursue our business strategy.

Forward-Looking Statements

This report and other documents we file with the Securities and Exchange Commission (SEC) include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Table of Contents

These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results implied by the forward-looking statements. Such factors include, but are not limited to, the risks and uncertainties identified by us under the heading Risk Factors in Item 1A of Part I and elsewhere in this Annual Report on Form 10-K.

Forward-looking statements may also include, but are not limited to, statements about:

- the current and future economic environments affecting us and the markets we serve;
- expectations regarding investments in new projects by our customers;
- sources of revenue and anticipated revenue, including the contribution from the growth of new products, services and markets;
- expectations regarding achievement of revenue and profitability expectations;
- plans for future products and services and for enhancements to existing products and services;
- our operations in foreign countries;
- political instability in regions in which our customers are located;
- our ability to continue to pursue our growth and acquisition strategy;
- our ability to expand nuclear power work into new markets;
- our ability to maintain or expand nuclear work for the U.S. Navy;
- our ability to successfully execute our existing contracts;
- estimates regarding our liquidity and capital requirements;
- timing of conversion of backlog to sales;
- our ability to attract or retain customers;
- the outcome of any existing or future litigation; and

our ability to increase our productivity and capacity.

Forward-looking statements are usually accompanied by words such as anticipate, believe, estimate, may, might, intend, interest, app suggest, plan, encourage, potential and similar expressions. Actual results could differ materially from historical results or those implied by th forward-looking statements contained in this report.

Undue reliance should not be placed on our forward-looking statements. Except as required by law, we undertake no obligation to update or announce any revisions to forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

Current Market Conditions

Demand for our products and services to the oil refining and chemical industries depends on capital investment for new capacity, retrofit and debottlenecking projects and for planned or unplanned maintenance activity. The recent precipitous reduction in global cost for crude oil has caused a significant slowdown in investment by our oil refining and chemical industry customers, especially compared to 12 to 18 months earlier. These markets appear to be in a contraction due to the rapid change in the cost of crude oil. The timing of the recovery is uncertain and will depend upon the future price of crude oil which is currently depressed. Within the nuclear utility market, demand is affected by investment in maintenance, repair, life extension and nuclear regulatory mandated investment along with global investment in new capacity. We continue to view this market as providing steady growth. Our naval nuclear propulsion market has demand tied to surface and submarine vessel construction schedules of the primary shipyards who service the U.S. Navy.

Our long term perspective for oil refining and chemical markets remains optimistic notwithstanding the severity of the current downturn in these markets. Long-term demand drivers are unchanged, such as, increasing global energy demand, rising population growth and expanding middle class in emerging markets. Our strategy is

Table of Contents

to continue to invest in our capabilities and capacity to expand market share in the oil refining and chemical industry markets.

We believe the long-term outlook in our key markets supports our strategy to organically double our business over the next cycle. New order levels are anticipated to remain volatile, resulting in both relatively strong and weak periods. As the chart below indicates, quarterly orders can vary significantly.

We believe that looking at our order level in any one or two quarters does not provide an accurate indication of our future expectations or performance. Rather, we believe that looking at our orders and backlog over a trailing twelve month period provides a better measure of our business. Our quarterly order levels and trailing twelve month order levels for fiscal 2015, fiscal 2014 and fiscal 2013, respectively, are set forth in the table below.

Results of Operations

For an understanding of the significant factors that influenced our performance, the following discussion should be read in conjunction with our consolidated financial statements and the notes to our consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K.

The following table summarizes our results of operations for the periods indicated:

	Year Ended March 31,		
	2015	**2014**	**2013**
Net sales	$ 135,169	$ 102,218	$ 104,973
Net income	$ 14,735	$ 10,145	$ 11,148
Diluted income per share	$ 1.45	$ 1.00	$ 1.11
Total assets	$ 154,654	$ 141,634	$ 126,733

Table of Contents

Fiscal 2015 Compared with Fiscal 2014

Sales for fiscal 2015 were $135,169, up $32,951 or 32%, as compared with sales of $102,218 for fiscal 2014. Domestic sales were $86,399 or 64% of total sales, up from $63,850 or 62% of total sales in fiscal 2014. Domestic sales increased $22,549, or 35%, compared with fiscal 2014 driven principally by new capacity investment in the U.S. chemical industry. International sales accounted for $48,770 or 36% of total sales for fiscal 2015, up from $38,368, or 38%, of total sales in fiscal 2014. International sales increased $10,402, or 27%, compared with fiscal 2014. By market, sales for fiscal 2015 were 32% to the refining industry, down from 35% in fiscal 2014, 35% to the chemical and petrochemical industries, up from 24% in fiscal 2014, 15% to the power markets, down from 23% in fiscal 2014, and 18% to other industrial applications, including the U.S. Navy, the same as in fiscal 2014.

Our gross margin for fiscal 2015 was 30.9% compared with 31.1% for fiscal 2014. Leverage from 33% greater revenue in 2015 versus 2014 was muted by lower pricing for certain orders and the extent of subcontracting that was required due ing-top:2px;padding-bottom:2px;">

$
70,377

$
127,905

CASH AND CASH EQUIVALENTS, END OF PERIOD
$
52,800

$
52,244

6

Table of Contents

See notes to condensed consolidated financial statements

Table of Contents

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 software implementation services for financial institutions to utilize JHA software 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 nine months ended March 31, 2015 and 2014 equals the Company's net income.
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 short-term borrowings on its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At March 31, 2015, there were 21,693 shares in treasury stock and the Company had the remaining authority to repurchase up to 8,298 additional shares. The total cost of treasury shares at March 31, 2015 is $690,584. During the first nine months of fiscal 2015, the Company repurchased 1,898 treasury shares for $112,803. At June 30, 2014, there were 19,795 shares in treasury stock and the Company had authority to repurchase up to 5,196 additional shares.
Dividends declared per share were $0.25 and $0.22 for the three months ended March 31, 2015 and 2014, respectively. Dividends declared per share were $0.69 and $0.62 for the nine months ended March 31, 2015 and 2014, 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/A ("Form 10-K/A") for the fiscal year ended June 30, 2014. 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/A for the fiscal year ended June 30, 2014.
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 present fairly the financial position of the Company as of March 31, 2015, the results of its operations for the three and nine months ended March 31, 2015 and 2014, and its cash flows for the nine months ended March 31, 2015 and 2014.
The results of operations for the period ended March 31, 2015 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 May 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

Table of Contents

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. On April 29, 2015, the PTAB issued decisions holding that all claims of the plaintiff's patents at issue in the lawsuit are unpatentable and invalid. DataTreasury has moved for rehearing of the PTAB decision. 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 fair value of long term debt also approximates carrying value as estimated using discounted cash flows based on the Company’s current incremental borrowing rates or quoted prices in active markets.

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, is as follows:

	Estimated Fair Value Measurements			Total Fair
	Level 1	Level 2	Level 3	Value
March 31, 2015				
Financial Assets:				
Money market funds	$20,436	$—	$—	$20,436
June 30, 2014				
Financial Assets:				
Money market funds	$28,877	$—	$—	$28,877

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENT

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 authoritative literature for revenue recognition. On April 1, 2015, the FASB voted to defer the effective date of the new standard by one year. If a final standard is issued and remains consistent with the FASB's April 1, 2015 vote, 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. Along with the deferral of the effective date, the FASB also voted to allow early application as of the original effective date. Entities are allowed to transition to the new standard by either recasting prior periods or recognizing the cumulative effect. The Company is currently evaluating the newly issued guidance, including which transition approach will be applied and the estimated impact it will have on our consolidated financial statements.

In April 2015, the FASB also 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 2015-3 is effective for the company in fiscal year ended June 30, 2017. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will adopt these changes for the fiscal year ended June 30, 2017.

9

Table of Contents

NOTE 4. DEBT

The Company’s outstanding long and short term debt is as follows:

	March 31, 2015	June 30, 2014
LONG TERM DEBT		
Revolving credit facility	$70,000	$—
Capital leases	1,012	7,757
	71,012	7,757
Less current maturities	812	4,028
Debt, net of current maturities	$70,200	$3,729
SHORT TERM DEBT		
Capital leases	$6,435	$1,379
Current maturities of long-term debt	812	4,028
Notes payable and current maturities of long term debt	$7,247	$5,407

Capital leases

The Company has entered into various capital lease obligations for the use of certain computer equipment. $1,012 of long term capital lease obligations remains outstanding at March 31, 2015, of which $812 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling $6,435 at March 31, 2015.

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 1.00%, plus an applicable percentage in each case determined by the Company's leverage ratio. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. Among those covenants is a requirement to provide unaudited, quarterly financial statements within 45 days of the end of the quarter, the Company has received an extension on this requirement related to the first and second quarters of fiscal 2015 until June 30, 2015. The revolving loan terminates February 20, 2020 and at March 31, 2015, the outstanding revolving loan balance was $70,000.

Other lines of credit

The Company renewed an unsecured bank credit line on March 3, 2014 which provides for funding of up to $5,000 and bears interest at the prime rate less 1%. The credit line was renewed through April 30, 2017. At March 31, 2015, no amount was outstanding.

Interest

The Company paid interest of $817 and $586 during the nine months ended March 31, 2015 and 2014, respectively.

Property and Equipment

Property and equipment included $5,444 and $16,084 in accrued liabilities or acquired via capital lease at March 31, 2015 and 2014, respectively. These amounts were excluded from capital expenditures on the statement of cash flows.

NOTE 5. INCOME TAXES

The effective tax rate of 33.8% of income before income taxes for the quarter ended March 31, 2015, which is equal to 33.8% for the same quarter in fiscal 2014 primarily due to the effect of the Research and Experimentation Credit (“R&E Credit”) which was retroactively extended in December 2014.

The Company paid income taxes of $60,164 and $64,323 in the nine months ended March 31, 2015 and 2014, respectively.

At March 31, 2015, the Company had $7,423 of gross unrecognized tax benefits, $5,705 of which, if recognized, would affect our effective tax rate. We had accrued interest and penalties of $1,388 and $758 related to uncertain tax positions at March 31, 2015 and 2014, respectively.

10

Table of Contents

The U.S. federal and state income tax returns for June 30, 2011 and all subsequent years remain subject to examination as of March 31, 2015 under statute of limitations rules. We anticipate potential changes could reduce the unrecognized tax benefits balance by $2,000 - $3,000 within twelve months of March 31, 2015.

NOTE 6. STOCK-BASED COMPENSATION

For the three months ended March 31, 2015 and 2014, there was $2,759 and $2,761 of equity-based compensation costs, respectively. Our pre-tax operating income for the nine months ended March 31, 2015 and 2014, includes $7,342 and $7,303 of equity-based compensation costs, respectively.

2005 NSOP and 1996 SOP

The Company previously issued options to employees under the 1996 Stock Option Plan (“1996 SOP”) and to outside directors under the 2005 Non-Qualified Stock Option Plan (“2005 NSOP”). No stock options were issued under the 1996 SOP or the 2005 NSOP during the nine months ended March 31, 2015.

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

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding July 1, 2014	125	$22.29	
Granted	—	—	
Forfeited	—	—	
Exercised	(15)	19.65	
Outstanding March 31, 2015	110	$22.65	$5,197
Vested March 31, 2015	110	$22.65	$5,197
Exercisable March 31, 2015	110	$22.65	$5,197

Compensation cost related to outstanding options has been fully recognized. The weighted average remaining contractual term on options currently exercisable as of March 31, 2015 was 3.16 years.

Restricted Stock Plan

The Company issues both share awards and unit awards under the Restricted Stock Plan. The following table summarizes non-vested share awards as of March 31, 2015, as well as activity for the nine months then ended:

Share awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2014	138	$33.56
Granted	9	56.06
Vested	(70)	35.80
Forfeited	(7)	46.39
Outstanding March 31, 2015	70	$32.95

At March 31, 2015, there was $1,347 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 1.22 years.

Table of Contents

The following table summarizes non-vested unit awards as of March 31, 2015, as well as activity for the nine months then ended:

Unit awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2014	709	$31.66
Granted	178	53.52
Vested	(277)	19.69
Forfeited	(111)	22.74
Outstanding March 31, 2015	499	$48.08

The weighted average assumptions used in this model to estimate fair value at the measurement date and resulting values for 164 unit awards granted are as follows:

Volatility	17.8 %
Risk free interest rate	1.06 %
Dividend yield	1.5 %
Stock Beta	0.765

The remaining 14 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 award grants.

At March 31, 2015, there was $11,149 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 1.41 years.

NOTE 7. EARNINGS PER SHARE

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	2015	2014
Net Income	$50,712	$42,606	$150,679	$134,188
Common share information:				
Weighted average shares outstanding for basic earnings per share	80,880	84,981	81,502	85,242
Dilutive effect of stock options and restricted stock	214	486	271	527
Weighted average shares outstanding for diluted earnings per share	81,094	85,467	81,773	85,769
Basic earnings per share	$0.63	$0.50	$1.85	$1.57
Diluted earnings per share	$0.63	$0.50	$1.84	$1.56

Per share information is based on the weighted average number of common shares outstanding for the three and nine months ended March 31, 2015 and 2014. Stock options and restricted stock have been included in the calculation of earnings per share to the extent they are dilutive. There were 112 anti-dilutive stock options or restricted stock excluded for the three month period ended March 31, 2015 (no shares were excluded for the three month period ended March 31, 2014). There were 83 anti-dilutive restricted shares excluded for the nine months ended March 31, 2015 (6 restricted shares were excluded for the nine months ended March 31, 2014).

NOTE 8. BUSINESS ACQUISITION

Banno, LLC

Effective March 1, 2014, the Company acquired all of the equity interests of Banno, an Iowa-based company that provides Web hosting, mobile banking, and transaction marketing services with a focus on the mobile medium, for $27,910 paid in cash. This acquisition was funded using existing operating cash. The acquisition of Banno expanded the Company’s presence in online and mobile technologies within the industry.

12

Table of Contents

Management has completed a purchase price allocation of Banno and its assessment of the fair value of acquired assets and liabilities assumed. The recognized amounts of identifiable assets acquired and liabilities assumed, based upon their fair values as of March 1, 2014 are set forth below:

Current assets	$610	
Long-term assets	87	
Identifiable intangible assets	9,255	
Total liabilities assumed	(1,512	)
Total identifiable net assets	8,440	
Goodwill	19,470	
Net assets acquired	$27,910	

The goodwill of $19,470 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 Banno, together with the value of Banno’s assembled workforce. Goodwill from this acquisition has been allocated to our Banking Systems and Services segment. Approximately 95% of the goodwill is expected to be deductible for income tax purposes.
Identifiable intangible assets from this acquisition consists of customer relationships of $3,946, $3,546 of computer software and other intangible assets of $1,763. The weighted average amortization period for acquired customer relationships, acquired computer software, and other intangible assets is 15 years, 8 years, and 20 years, respectively.
Current assets is inclusive of cash acquired of $16. The fair value of current assets acquired included accounts receivable of $476. The gross amount receivable is $501, of which $25 is expected to be uncollectible.
The accompanying consolidated statements of income for the three and nine months ended March 31, 2014 do not include any revenues and expenses related to this acquisition prior to the closing date of the acquisition. The impact of this acquisition was considered immaterial to both the current and prior periods of our consolidated financial statements and pro forma financial information has not been provided.

Table of Contents

NOTE 9. REPORTABLE SEGMENT INFORMATION

The Company is a provider of integrated computer systems that perform data processing (available for in-house installations or outsourced services) for banks and credit unions. The Company’s operations are classified into two reportable segments: bank systems and services (“Bank”) and credit union systems and services (“Credit Union”). The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenue.

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Bank	Credit Union	Total	Bank	Credit Union	Total
REVENUE						
License	$333	$236	$569	$575	$28	$603
Support and service	228,666	68,230	296,896	212,465	63,635	276,100
Hardware	9,112	3,132	12,244	10,411	4,320	14,731
Total revenue	238,111	71,598	309,709	223,451	67,983	291,434
COST OF SALES						
Cost of license	141	144	285	214	13	227
Cost of support and service	132,548	35,909	168,457	126,787	36,037	162,824
Cost of hardware	6,791	2,361	9,152	7,835	3,173	11,008
Total cost of sales	139,480	38,414	177,894	134,836	39,223	174,059
GROSS PROFIT	$98,631	$33,184	131,815	$88,615	$28,760	117,375
OPERATING EXPENSES			54,613			52,834
INTEREST INCOME (EXPENSE)			(636)			(178)
INCOME BEFORE INCOME TAXES			$76,566			$64,363

14

Table of Contents

	Nine Months Ended March 31, 2015			Nine Months Ended March 31, 2014		
	Bank	Credit Union	Total	Bank	Credit Union	Total
REVENUE						
License	$1,062	$501	$1,563	$1,251	$359	$1,610
Support and service	678,989	203,028	882,017	623,589	188,383	811,972
Hardware	28,987	9,910	38,897	32,478	11,947	44,425
Total revenue	709,038	213,439	922,477	657,318	200,689	858,007
COST OF SALES						
Cost of license	691	311	1,002	485	275	760
Cost of support and service	395,469	108,456	503,925	362,408	104,341	466,749
Cost of hardware	20,849	7,262	28,111	23,983	8,833	32,816
Total cost of sales	417,009	116,029	533,038	386,876	113,449	500,325
GROSS PROFIT	$292,029	$97,410	389,439	$270,442	$87,240	357,682
OPERATING EXPENSES			160,949			152,271
INTEREST INCOME (EXPENSE)			(1,155)			(464)
INCOME BEFORE INCOME TAXES			$227,335			$204,947

	March 31, 2015	June 30, 2014
Property and equipment, net		
Bank systems and services	$257,059	$258,437
Credit Union systems and services	33,661	33,238
Total	$290,720	$291,675
Intangible assets, net		
Bank systems and services	$659,972	$643,972
Credit Union systems and services	230,794	231,435
Total	$890,766	$875,407

The Company has not disclosed any additional asset information by segment, as the information is not produced internally and its preparation is impracticable.

NOTE 10. SUBSEQUENT EVENTS

Dividends

On May 11, 2015, the Company's Board of Directors declared a cash dividend of $0.25 per share on its common stock, payable on June 9, 2015 to shareholders of record on May 26, 2015.

NOTE 11. RESTATEMENT OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Correction of Accounting Errors

During the current fiscal year, management identified historical accounting errors relating to its accounting for certain software license, maintenance and service agreements. The prior period errors primarily relate to the Company's accounting for its bundled software multi-element arrangements.

Table of Contents

More specifically, the Company concluded it had improperly accounted for contracts containing multiple software products delivered at different points in time as separate arrangements within a contract versus as a single arrangement with multiple elements, resulting in revenue being recognized on these contracts before all licenses, for which no vendor-specific objective evidence (“VSOE”) of fair value exists, had been delivered. Furthermore, the Company concluded that its mechanisms for tracking and estimating implementation hours was not capable of producing reliable estimates in support of its assertion of VSOE for its implementation services and that its pricing for stand-alone sales of post-contract support ("PCS") was not consistent enough to support its assertion of VSOE for PCS during prior periods.

Our previous accounting resulted in revenue being recognized earlier than would be appropriate for bundled software multi-element arrangements where VSOE does not exist for any of the software elements. Our current conclusions result in the deferral of revenue on such arrangements until the only undelivered element is PCS. The total arrangement revenue is then recognized ratably over the remaining initial bundled PCS period provided all other revenue recognition criteria have been met. Direct and incremental costs, including direct labor and sales commissions, related to obtaining and implementing these contracts have also been deferred until the only undelivered element is PCS and are recognized ratably over the remaining initial bundled PCS period.

Due to the above errors, including the related tax impact, net income for the fiscal quarter ended March 31, 2014 was overstated by $4,150 and net income for the nine months ended March 31, 2014 was overstated by $16,339. On the balance sheet, total assets as of June 30, 2014 increased $56,411, total liabilities increased $127,185, and stockholders' equity decreased $70,774.

The following tables present the effects of the restatement on each line of the Company's previously issued condensed consolidated financial statements as of June 30, 2014 and for the fiscal quarter and nine-month period ended March 31, 2014.

Table of Contents

Condensed Consolidated Statements of Income:
(In Thousands, Except Per Share Data)

	Quarter Ended March 31, 2014 As Previously Reported	Effect of Restatement	As Restated
REVENUE			
License	$15,267	$(14,664)	$603
Support and service	270,931	5,169	276,100
Hardware	14,731	—	14,731
Total revenue	300,929	(9,495)	291,434
COST OF SALES			
Cost of license	1,167	(940)	227
Cost of support and service	164,223	(1,399)	162,824
Cost of hardware	11,008	—	11,008
Total cost of sales	176,398	(2,339)	174,059
GROSS PROFIT	124,531	(7,156)	117,375
OPERATING EXPENSES			
Selling and marketing	22,034	(315)	21,719
Research and development	17,485	—	17,485
General and administrative	13,630	—	13,630
Total operating expenses	53,149	(315)	52,834
OPERATING INCOME	71,382	(6,841)	64,541
INTEREST INCOME (EXPENSE)			
Interest income	84	—	84
Interest expense	(262)	—	(262)
Total interest income (expense)	(178)	—	(178)
INCOME BEFORE INCOME TAXES	71,204	(6,841)	64,363
PROVISION FOR INCOME TAXES	24,448	(2,691)	21,757
NET INCOME	$46,756	$(4,150)	$42,606
Diluted earnings per share	$0.55	$(0.05)	$0.50
Diluted weighted average shares outstanding	85,467	85,467	85,467
Basic earnings per share	$0.55	$(0.05)	$0.50
Basic weighted average shares outstanding	84,981	84,981	84,981

Table of Contents

Condensed Consolidated Statements of Income:
(In Thousands, Except Per Share Data)

	Nine-Month Period Ended March 31, 2014		
	As Previously Reported	Effect of Restatement	As Restated
REVENUE			
License	$39,938	$(38,328)	$1,610
Support and service	814,751	(2,779)	811,972
Hardware	44,425	—	44,425
Total revenue	899,114	(41,107)	858,007
COST OF SALES			
Cost of license	3,526	(2,766)	760
Cost of support and service	476,700	(9,951)	466,749
Cost of hardware	32,816	—	32,816
Total cost of sales	513,042	(12,717)	500,325
GROSS PROFIT	386,072	(28,390)	357,682
OPERATING EXPENSES			
Selling and marketing	64,562	(1,602)	62,960
Research and development	49,300	—	49,300
General and administrative	40,011	—	40,011
Total operating expenses	153,873	(1,602)	152,271
OPERATING INCOME	232,199	(26,788)	205,411
INTEREST INCOME (EXPENSE)			
Interest income	344	—	344
Interest expense	(808)	—	(808)
Total interest income (expense)	(464)	—	(464)
INCOME BEFORE INCOME TAXES	231,735	(26,788)	204,947
PROVISION FOR INCOME TAXES	81,208	(10,449)	70,759
NET INCOME	$150,527	$(16,339)	$134,188
Diluted earnings per share	$1.76	$(0.19)	$1.56
Diluted weighted average shares outstanding	85,769	85,769	85,769
Basic earnings per share	$1.77	$(0.19)	$1.57
Basic weighted average shares outstanding	85,242	85,242	85,242

Table of Contents

Condensed Consolidated Balance Sheets:
(In Thousands, Except Share and Per Share Data)

	June 30, 2014 As Previously Reported	Effect of Restatement	As Restated
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$70,377	$—	$70,377
Receivables, net	224,041	—	224,041
Income tax receivable	7,937	—	7,937
Prepaid expenses and other	59,824	1,250	61,074
Deferred costs	22,202	4,875	27,077
Total current assets	384,381	6,125	390,506
PROPERTY AND EQUIPMENT, net	291,675	—	291,675
OTHER ASSETS:			
Non-current deferred costs	34,708	43,750	78,458
Computer software, net of amortization	160,391	—	160,391
Other non-current assets	38,121	6,536	44,657
Customer relationships, net of amortization	136,602	—	136,602
Other intangible assets, net of amortization	25,653	—	25,653
Goodwill	552,761	—	552,761
Total other assets	948,236	50,286	998,522
Total assets	$1,624,292	$56,411	$1,680,703
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$10,516	$—	$10,516
Accrued expenses	63,299	—	63,299
Deferred income tax liability	37,592	(7,498)	30,094
Notes payable and current maturities of long term debt	5,407	—	5,407
Deferred revenues	312,002	25,491	337,493
Total current liabilities	428,816	17,993	446,809
LONG TERM LIABILITIES:			
Non-current deferred revenues	8,985	146,390	155,375
Non-current deferred income tax liability	134,918	(37,198)	97,720
Debt, net of current maturities	3,729	—	3,729
Other long-term liabilities	9,683	—	9,683
Total long term liabilities	157,315	109,192	266,507
Total liabilities	586,131	127,185	713,316
STOCKHOLDERS' EQUITY			
Preferred stock - $1 par value; 500,000 shares authorized, none issued	—	—	—
Common stock - $0.01 par value; 250,000,000 shares authorized; 102,429,926 shares issued at June 30, 2014	1,024	—	1,024
Additional paid-in capital	412,512	—	412,512
Retained earnings	1,202,406	(70,774)	1,131,632
Less treasury stock at cost; 19,794,559 shares at June 30, 2014	(577,781)	—	(577,781)
Total stockholders' equity	1,038,161	(70,774)	967,387
Total liabilities and equity	$1,624,292	$56,411	$1,680,703

19

Table of Contents

Condensed Consolidated Statements of Cash Flows:
(In Thousands)

	Nine-Month Period Ended March 31, 2014		
	As Previously Reported	Effect of Restatement	As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$150,527	$(16,339)	$134,188
Adjustments to reconcile net income from operations to net cash from operating activities:			
Depreciation	39,581	—	39,581
Amortization	39,936	—	39,936
Change in deferred income taxes	1,056	(10,450)	(9,394)
Excess tax benefits from stock-based compensation	(3,320)	—	(3,320)
Expense for stock-based compensation	7,303	—	7,303
(Gain)/loss on disposal of assets	(255)	—	(255)
Changes in operating assets and liabilities:			
Change in receivables	91,529	—	91,529
Change in prepaid expenses, deferred costs and other	(13,892)	(14,318)	(28,210)
Change in accounts payable	(4,670)	—	(4,670)
Change in accrued expenses	(11,019)	—	(11,019)
Change in income taxes	15,992	—	15,992
Change in deferred revenues	(151,331)	41,107	(110,224)
Net cash from operating activities	161,437	—	161,437
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment for acquisitions, net of cash acquired	(27,894)	—	(27,894)
Capital expenditures	(27,697)	—	(27,697)
Proceeds from sale of assets	5,392	—	5,392
Internal use software	(11,365)	—	(11,365)
Computer software developed	(44,511)	—	(44,511)
Net cash from investing activities	(106,075)	—	(106,075)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on credit facilities	—	—	—
Repayments on credit facilities	(15,556)	—	(15,556)
Purchase of treasury stock	(62,995)	—	(62,995)
Dividends paid	(52,770)	—	(52,770)
Debt acquisition costs	—	—	—
Excess tax benefits from stock-based compensation	3,320	—	3,320
Proceeds from issuance of common stock upon exercise of stock options	408	—	408
Minimum tax withholding payments related to share based compensation	(6,511)	—	(6,511)
Proceeds from sale of common stock, net	3,081	—	3,081
Net cash from financing activities	(131,023)	—	(131,023)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(75,661)	—	(75,661)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	127,905	—	127,905
CASH AND CASH EQUIVALENTS, END OF PERIOD	$52,244	$—	$52,244

Prior Period Reclassification
Certain amounts included within the condensed consolidated statement of cash flows for the nine months ended March 31, 2014 have been restated to correct an error related to the presentation of excess tax benefits from stock

based compensation within cash flows from operating activities. Such correction adjusted the cash flow statement for the nine months ended March 31, 2014 by presenting excess tax benefits from stock based compensation as a separate line item and increasing the change in income taxes by $3,320. There was no change in total cash flows from operating, investing or financing activities.

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 March 31, 2015.

All of the financial information presented in this Item 2 has been revised to reflect the restatement of our condensed consolidated financial statements more fully described in Note 11 - Restatement of Consolidated Financial Statements which is included in "Financial Statements" in Item 1 of this Form 10-Q.

OVERVIEW

Jack Henry & Associates, Inc. (JHA) is a leading provider of technology solutions and payment processing services primarily for financial services organizations. Our solutions are marketed and supported through three primary brands. Jack Henry Banking® supports banks ranging from community to multi-billion dollar institutions with information and transaction processing solutions. Symitar® is a leading provider of information and transaction processing solutions for credit unions of all sizes. ProfitStars® provides specialized 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. JHA's integrated solutions are available for in-house installation, outsourced services and hosted delivery.

A significant proportion of our revenue is derived from recurring outsourcing fees and transaction processing fees that predominantly have contract terms of five years or greater at inception. Support and service fees also include in-house maintenance fees on primarily annual contract terms. Less predictable software license fees and hardware sales complement our primary revenue sources. We continually seek opportunities to increase revenue while at the same time containing costs to expand margins.

RESULTS OF OPERATIONS

In the third quarter of fiscal 2015, revenues increased 6% or $18,275 compared to the same period in the prior year, with strong growth continuing in our support & service revenue component. Cost of sales increased 2%, in line with revenue, and operating expenses increased 3% for the quarter due mainly to increased headcount and related salaries. Provision for income taxes increased slightly compared to the prior year third quarter. The increased revenue and above changes resulted in a 19% increase in net income for the quarter.

In the nine months ending March 31, 2015, revenues increased 8% or $64,470 compared to the same nine months last year, with strong growth continuing in all components of our support & service revenues, particularly electronic payment services. Cost of sales increased 7%, in line with revenue, and operating expenses increased 6% for the nine month period ended March 31, 2015. Provision for income taxes increased 8% compared to the prior year-to-date period. The increased revenue and above changes resulted in an 12% increase in net income for the nine months ending March 31, 2015.

We move into the final quarter of fiscal 2015 following strong performance in the first nine months of the fiscal year. Significant portions of our business continue to come from recurring revenue and our healthy sales pipeline is also encouraging. Our customers continue to face regulatory and operational challenges which our products and services address, and in these times they have an even greater need for our solutions that directly address institutional profitability, efficiency and security. Our strong balance sheet, access to extensive lines of credit, the strength of our existing product line and an unwavering commitment to superior customer service 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 nine months ended March 31, 2015 follows. All dollar amounts are in thousands and discussions compare the current three and nine

months ended March 31, 2015 to the prior year three and nine months ended March 31, 2014.
REVENUE

21

License Revenue	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
License	$569	$603	(6)%	$1,563	$1,610	(3)%
Percentage of total revenue	<1%	<1%		<1%	<1%	

License revenue represents the sale and delivery of application software systems contracted with us by the customer, that are not part of a bundled arrangement. Non-bundled license revenue decreased for the quarter and year-to-date periods due mainly to a decrease in standalone license sales in our banking segment. Such license fees will fluctuate as non-bundled license sales are sporadic in nature.

Support and Service Revenue	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
Support and service	$296,896	$276,100	8 %	$882,017	$811,972	9 %
Percentage of total revenue	96 %	95 %		96 %	95 %	

	Qtr over Qtr		Year over Year	
	$ Change	% Change	$ Change	% Change
In-House Support & Other Services	$2,759	4 %	$4,540	2 %
Electronic Payment Services	9,974	9 %	30,784	9 %
Outsourcing Services	10,628	18 %	26,799	15 %
Implementation Services	1,021	6 %	9,047	19 %
Bundled Products & Services	(3,586)	(22)%	(1,125)	(4)%
Total Increase	$20,796		$70,045	

There was growth in support and service revenue components in the both the quarterly and year-to-date periods of fiscal 2015.

In-house support and other services revenue increased due to annual maintenance renewal fee increases for both core and complementary products as our customers' assets grow.

Electronic payment services continue to experience the largest dollar growth in the year-to-date period. The revenue increases are attributable to strong performance across debit/credit card transaction processing services, online bill payment services and ACH processing.

Outsourcing services for banks and credit unions continue to drive revenue growth as customers continue to show a preference for outsourced delivery of our solutions. We expect the trend towards outsourced product delivery to benefit outsourcing services revenue for the foreseeable future. Revenues from outsourcing services are typically earned under multi-year service contracts and therefore provide a long-term stream of recurring revenues.

Implementation services include implementation services for our outsourcing and electronic payment services customers as well as standalone customization services, merger conversion services, image conversion services and network monitoring services. Implementation services revenue increased in both the quarter and year-to-date periods, with increasing implementations across our core, online banking, imaging solutions and payments products.

Bundled products and services revenue is combined revenue from the multiple elements in our bundled arrangements, including license, implementation services and maintenance, which cannot be recognized separately due to a lack of vendor-specific objective evidence of fair value. Bundled products and services decreased for the quarter mainly due to decreased installations of our Alogent suite of products.

Hardware Revenue	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
Hardware	$12,244	$14,731	(17)%	$38,897	$44,425	(12)%
Percentage of total revenue	4 %	5 %		4 %	5 %	

Hardware revenue decreased for both the quarter and year-to-date periods due to a decrease in complementary hardware products delivered.

22

Table of Contents

Although there will be continuing quarterly fluctuations, we expect there to be an overall decreasing trend in hardware sales due to the change in sales mix towards outsourcing contracts, which typically do not include hardware, and the general deflationary trend of computer prices.

COST OF SALES AND GROSS PROFIT

	Three Months Ended March 31,				% Change		Nine Months Ended March 31,				% Change	
	2015		2014				2015		2014			
Cost of License	$285		$227		26	%	$1,002		$760		32	%
Percentage of total revenue	<1%		<1%				<1%		<1%			
License Gross Profit	$284		$376		(24	)%	$561		$850		(34	)%
Gross Profit Margin	50	%	62	%			36	%	53	%		
Cost of support and service	$168,457		$162,824		3	%	$503,925		$466,749		8	%
Percentage of total revenue	54	%	56	%			55	%	54	%		
Support and Service Gross Profit	$128,439		$113,276		13	%	$378,092		$345,223		10	%
Gross Profit Margin	43	%	41	%			43	%	43	%		
Cost of hardware	$9,152		$11,008		(17	)%	$28,111		$32,816		(14	)%
Percentage of total revenue	3	%	4	%			3	%	4	%		
Hardware Gross Profit	$3,092		$3,723		(17	)%	$10,786		$11,609		(7	)%
Gross Profit Margin	25	%	25	%			28	%	26	%		
TOTAL COST OF SALES	$177,894		$174,059		2	%	$533,038		$500,325		7	%
Percentage of total revenue	57	%	60	%			58	%	58	%		
TOTAL GROSS PROFIT	$131,815		$117,375		12	%	$389,439		$357,682		9	%
Gross Profit Margin	43	%	40	%			42	%	42	%		

Cost of license consists of the direct costs of third party software that are a part of a non-bundled arrangement. Sales of these third party software products remained fairly level compared to last year; however, shifts in sales mix between the products that make up these costs cause fluctuations in the margins from period to period.

Gross profit margins in support and service increased for the quarter primarily due to economies of scale realized from increased revenues, particularly in electronic payment services. Margins for the year-to-date have remained consistent.

In general, changes in cost of hardware trend consistently with hardware revenue. For the fiscal quarter and year, margins are slightly higher due to increased sales of higher margin hardware upgrade products.

Table of Contents

OPERATING EXPENSES

Selling and Marketing	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
Selling and marketing	$21,674	$21,719	— %	$65,512	$62,960	4 %
Percentage of total revenue	7 %	7 %		7 %	7 %	

Selling and marketing expenses increased year-to-date mainly due to higher commission expenses and a general increase in sales headcount and related personnel costs, remaining at 7% of total revenue.

Research and Development	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
Research and development	$17,522	$17,485	— %	$51,995	$49,300	5 %
Percentage of total revenue	6 %	6 %		6 %	6 %	

Research and development expenses increased both for the quarter and year-to-date primarily due to increased headcount and related personnel costs, remaining at 6% of total revenue.

General and Administrative	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
General and administrative	$15,417	$13,630	13 %	$43,442	$40,011	9 %
Percentage of total revenue	5 %	5 %		5 %	5 %	

General and administrative expenses increased for the quarter mainly due to increased headcount and related salaries. The year-to-date expense is higher due to the impact of a Lyndhurst related insurance recovery in the prior year coupled with increased headcount and related personnel costs, partially offset by the Teleweb gain.

INTEREST INCOME AND EXPENSE	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
Interest Income	$33	$84	(61)%	$118	$344	(66)%
Interest Expense	$(669)	$(262)	155 %	$(1,273)	$(808)	58 %

Interest income fluctuated due to changes in invested balances and yields on invested balances. Interest expense increased slightly for both the quarter and year-to-date due to interest on the borrowing from our revolving credit facility in the second quarter.

PROVISION FOR INCOME TAXES	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
Provision For Income Taxes	$25,854	$21,757	19 %	$76,656	$70,759	8 %
Effective Rate	33.8 %	33.8 %		33.7 %	34.5 %	

The current year-to-date income tax rate was in line with the quarter and slightly lower than the year-to-date prior year periods primarily due to the effect of the Research and Experimentation Credit (“R&E Credit”), which was retroactively extended in December 2014.

NET INCOME

Net income increased 19% for the three months ended March 31, 2015. For the third quarter of fiscal 2015, it was $50,712 or $0.63 per diluted share compared to $42,606, or $0.50 per diluted share in the same period last year. Net income also increased 12% for the nine month period ended March 31, 2015 to $150,679 or $1.84 per diluted share compared to $134,188 or $1.56 per diluted share, for the same nine month period last year.

Table of Contents

REPORTABLE SEGMENT DISCUSSION

The Company is a provider of integrated computer systems that perform data processing (available for in-house installations or outsourced services) for banks and credit unions. The Company’s operations are classified into two reportable segments: bank systems and services (“Bank”) and credit union systems and services (“Credit Union”). The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenue.

Bank Systems and Services	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
Revenue	$238,111	$223,451	7 %	$709,038	$657,318	8 %
Gross profit	$98,631	$88,615	11 %	$292,029	$270,442	8 %
Gross profit margin	41 %	40 %		41 %	41 %	

Revenue in the Bank segment increased 7% compared to the equivalent quarter last fiscal year. This was primarily due to growth support & service revenue, particularly electronic payment transaction processing services revenue which grew 10% and outsourcing services revenue which grew 18% over the prior year quarter.

Year-to-date revenue increased 8% for the nine month period due mainly to increased support and service revenue. Within support and service revenue, the increase was driven by 11% year-over-year growth in electronic payment services revenues from transaction processing and a 15% increase in outsourcing services revenue.

Gross profit margins decreased for both the quarter and year-to-date due primarily to increased personnel costs and increased depreciation and amortization.

Credit Union Systems and Services	Three Months Ended March 31,		% Change	Nine Months Ended March 31,		% Change
	2015	2014		2015	2014	
Revenue	$71,598	$67,983	5 %	$213,439	$200,689	6 %
Gross profit	$33,184	$28,760	15 %	$97,410	$87,240	12 %
Gross profit margin	46 %	42 %		46 %	43 %	

Revenue in the Credit Union segment increased 5% from the same quarter last year driven mainly by a 7% increase in support & service, particularly from electronic payments and in-house maintenance renewals.

Year-to-date revenue in the Credit Union segment increased 6% over the prior year, as Credit Union continues to grow in in-house maintenance renewals, outsourcing and electronic payments.

Gross profit margins for the Credit Union segment increased for both the three and nine month periods mainly due to economies of scale realized from growing transaction volume in our payment processing services.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents decreased to $52,800 at March 31, 2015 from $70,377 at June 30, 2014, primarily due to ongoing purchases of treasury stock.

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

	Nine Months Ended March 31,	
	2015	2014
Net income	$150,679	$134,188
Non-cash expenses	86,845	73,851
Change in receivables	86,626	91,529
Change in deferred revenue	(120,941)	(110,224)
Change in other assets and liabilities	(20,722)	(27,907)
Net cash provided by operating activities	$182,487	$161,437

Cash provided by operating activities increased 13% compared to last year. Cash from operations is primarily used to repay debt, pay dividends, repurchase stock and other capital expenditures.

Cash used in investing activities for the nine months of fiscal 2015 totaled $94,332 and included capital expenditures on facilities and equipment of $35,867, which mainly included the purchase of aircraft and computer equipment, $56,465 for the development of software, and $10,266 for the purchase and development of internal use software, partially offset by $8,266 proceeds from the sale of assets, mainly related to the TeleWeb suite of Internet and mobile banking software products to Data Center Inc. (DCI). Cash used in investing activities for the first nine months of fiscal year 2014 totaled $106,075 and included capital expenditures on facilities and equipment of $27,696, which mainly included the purchase of aircraft and computer equipment. Other uses of cash included $27,894 of payments for the acquisition of Banno, $44,511 for the development of software and $11,365 for the purchase and development of internal use software. These expenditures have been partially offset by $5,392 proceeds received primarily from sale of aircraft.

Financing activities used cash of $105,732 during the first nine months of the current fiscal year. Cash used was mainly $112,803 for the purchase of treasury shares, dividends paid to stockholders of $56,183, repayments of capital leases of $6,033, and $188 net cash outflow from the issuance of stock and tax related to stock-based compensation. Cash used was offset by $70,000 of borrowings on our revolving credit facility. Financing activities in the first nine months of last year used cash of $131,023. Cash used was mainly dividends paid to stockholders of $52,770, $62,995 for the purchase of treasury shares, and repayments of capital leases of $15,556. Cash used was partially offset by $298 net proceeds from the issuance of stock and tax 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 $35,867 and $27,697 for the nine months ended March 31, 2015 and 2014, 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 for the Company for fiscal year 2015 are not expected to exceed $60,000 and will be funded from cash generated by operations.

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 short-term borrowings on its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At March 31, 2015, there were 21,693 shares in treasury stock and the Company had the remaining authority to repurchase up to 8,298 additional shares. The total cost of treasury shares at March 31, 2015 is $690,584. During the first nine months of fiscal 2015, the Company repurchased 1,898 treasury shares for $112,803. At June 30, 2014, there were 19,795 shares in treasury stock and the Company had authority to repurchase up to 5,196 additional shares.

Capital leases

The Company has entered into various capital lease obligations for the use of certain computer equipment. $1,012 of long term capital lease obligations remains outstanding at March 31, 2015, of which $812 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling $6,435 at March 31, 2015.

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 1.00%, plus an applicable percentage in each case determined by the Company's leverage ratio. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. Among those covenants is a requirement to provide unaudited, quarterly financial statements within 45 days of the end of the quarter, the Company has received an extension on this requirement related to the first and second quarters of fiscal 2015 until June 30, 2015. The revolving loan terminates February 20, 2020 and at March 31, 2015, the outstanding revolving loan balance was $70,000.

Other lines of credit

The Company renewed an unsecured bank credit line on March 3, 2014 which provides for funding of up to $5,000 and bears interest at the prime rate less 1%. The credit line was renewed through April 30, 2017. At March 31, 2015, no amount was outstanding.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 interest 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.

Based on our outstanding debt with variable interest rates as of March 31, 2015 a 1% increase in our borrowing rate would increase annual interest expense in fiscal 2015 by less than $700.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of our management, including our 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 pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the CEO and CFO concluded that, due to a material weakness discussed below, the Company's disclosure controls and procedures were not effective as of June 30, 2014 and had not been remediated as of March 31, 2015 to ensure 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 that is 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.

Notwithstanding the material weakness identified by Company management, each of the Company's CEO and CFO has concluded, based on his knowledge, that the consolidated financial statements included in this Form 10-Q fairly present in all material respects the Company's financial condition, results of operations and cash flows of the Company as of, and for the periods presented in this report, in conformity with accounting principles generally accepted in the United States.

There are are a number of deficiencies in the design and operating effectiveness of internal control that, in aggregate, constitute a material weakness. The identified deficiencies noted below stem from a failure in the Company’s risk assessment process wherein the risk assessment process did not identify or evaluate the inherent risks and complexities associated with accounting for revenue arrangements with software elements.

- The lack of training and continuing education related to multiple element software arrangements led to a lack of knowledge of the individuals tasked with understanding various technical accounting matters associated with the Company's multiple element arrangement revenue recognition policies.
- Appropriate accounting and reporting policies and procedures related to bundled multiple element arrangements were not designed and implemented.
- Appropriate internal controls over financial reporting for bundled multiple element arrangements were not designed and implemented.
- Monitoring, including use of internal audit, was not appropriately designed to identify errors in accounting for revenue recognition for multiple element software arrangements.

These deficiencies in internal controls over financial reporting resulted in accounting errors in revenue recognition and delayed regulatory filings.

Changes in Internal Control over Financial Reporting

There were no changes in the company's internal control over financial reporting that occurred during fiscal quarter ending March 31, 2015, that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting, as remediation of the material weakness discussed above is not yet complete.

Remediation

27

Table of Contents

The Company has implemented a number of remediation steps to address the material weakness discussed above and to improve its internal controls. With respect to the control deficiencies discussed in the Management's Report on Internal Control over Financial Reporting (Revised) the following steps have been initiated.

i. Improve our risk assessment processes to identify inherent risks and complexities in accounting that could have financial reporting implications.
ii. Increase training and knowledge development for the individuals tasked with understanding various technical accounting matters associated with the Company's multiple element arrangement revenue recognition policies. Additionally, engage and retain experienced external advisors for technical assistance.
iii. Review and update our revenue recognition policies on a regular basis to incorporate changes in our business and accounting standards.
iv. Redesign of our contract review controls, focusing on key areas that may significantly impact revenue recognition.
v. Enhance the functionality of our systems and controls over reporting from the systems to account for bundled software arrangements properly.
vi. Develop improved internal audit programs and training for individuals tasked with monitoring our accounting for revenue recognition for multiple element software arrangements.

The Company expects that the measures described above should remediate the material weakness identified and strengthen our internal control over financial reporting. Management is committed to improving the Company's internal control processes. As the Company continues to evaluate and improve its internal controls, additional measures to address the material weakness or modifications to certain of the remediation procedures described above may be identified, which will be subject to audit procedures. The Company expects to complete the required remedial actions during fiscal 2016.

Table of Contents

PART II. OTHER INFORMATION

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

(c) Issuer Purchases of Equity Securities

The following shares of the Company were repurchased during the quarter ended March 31, 2015:

	Total Number of Shares Purchased [1]	Average Price of Share	Total Number of Shares Purchased as Part of Publicly Announced Plans [1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans [2]
January 1 - January 31, 2015	1,457	$62.21	—	3,298,084
February 1 - February 28, 2015	1,113	62.02	—	8,298,084
March 1 - March 31, 2015	1,228	67.68	—	8,298,084
Total	3,798	63.92	—	8,298,084

(1) No shares were purchased through a publicly announced repurchase plan. There were 3,798 shares surrendered to the Company to satisfy tax withholding obligations in connection with employee restricted stock awards.

(2) Stock repurchase authorizations approved by the Company's Board of Directors as of February 17, 2015 was 30.0 million shares, an increase of 5.0 million shares. These authorizations have no specific dollar or share price targets and no expiration dates.

ITEM 6. EXHIBITS

10.53 First Amendment to Credit Agreement.

10.54 Second Amendment to Credit Agreement.

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

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

* 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 March 31, 2015 and June 30, 2014, (ii) the Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2015 and 2014, (iii) the Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2015 and 2014, and

(iv) Notes to Condensed Consolidated Financial Statements.

Table of Contents

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: June 25, 2015	/s/ John F. Prim John F. Prim Chief Executive Officer and Chairman
Date: June 25, 2015	/s/ Kevin D. Williams Kevin D. Williams Chief Financial Officer and Treasurer