

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
May 11, 2009

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

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-14112

JACK HENRY & ASSOCIATES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation)

43-1128385

(I.R.S Employer Identification No.)

663 Highway 60, P.O. Box 807, Monett, MO 65708

(Address of Principle Executive Offices)

(Zip Code)

417-235-6652

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of May 7, 2009, Registrant has 83,793,814 shares of common stock outstanding (\$0.01 par value)

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JACK HENRY & ASSOCIATES, INC.  
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## PART 1. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|   | March 31,<br>2009 | June 30, 2008 |
|---|-------------------|---------------|
| <b>ASSETS</b>   |                   |               |
| <b>CURRENT ASSETS:</b>                                |                   |               |
| Cash and cash equivalents                             | \$ 26,415         | \$ 65,565     |
| Investments, at amortized cost                        | 1,000             | 997           |
| Receivables   | 104,524           | 213,947       |
| Prepaid expenses and other                            | 23,998            | 25,143        |
| Prepaid cost of product                               | 21,505            | 19,515        |
| Deferred income taxes                                 | 4,584             | 4,590         |
|   | 182,026           | 329,757       |
| Total current assets                                  |                   |               |
| PROPERTY AND EQUIPMENT, net                           | 236,169           | 239,005       |
| <b>OTHER ASSETS:</b>                                  |                   |               |
| Prepaid cost of product                               | 8,514             | 9,584         |
| Computer software, net of amortization                | 81,437            | 74,943        |
| Other non-current assets                              | 10,664            | 10,564        |
| Customer relationships, net of amortization           | 57,509            | 63,819        |
| Trade names   | 3,999             | 3,999         |
| Goodwill  | 292,400           | 289,373       |
|   | 454,523           | 452,282       |
| Total other assets                                    |                   |               |
| Total assets  | \$ 872,718        | \$ 1,021,044  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>           |                   |               |
| <b>CURRENT LIABILITIES:</b>                           |                   |               |
| Accounts payable                                      | \$ 5,380          | \$ 6,946      |
| Accrued expenses                                      | 27,265            | 35,996        |
| Accrued income taxes                                  | 1,025             | 15,681        |
| Note payable and current maturities of capital leases | 64,740            | 70,177        |
| Deferred revenues                                     | 91,060            | 212,375       |
|   | 189,470           | 341,175       |
| Total current liabilities                             |                   |               |

## LONG TERM LIABILITIES:

|  |         |         |
|--|---------|---------|
| Deferred revenues                                      | 9,771   | 11,219  |
| Deferred income taxes                                  | 64,337  | 61,710  |
| Other long-term liabilities, net of current maturities | 5,839   | 5,489   |
|  | <hr/>   | <hr/>   |
| Total long term liabilities                            | 79,947  | 78,418  |
|  | <hr/>   | <hr/>   |
| Total liabilities                                      | 269,417 | 419,593 |

## STOCKHOLDERS' EQUITY

|  |            |              |
|--|------------|--------------|
| Preferred stock - \$1 par value; 500,000 shares<br>authorized, none issued   | -          | -            |
| Common stock - \$0.01 par value:<br>250,000,000 shares authorized;<br>Shares issued at 3/31/09 were 97,915,607<br>Shares issued at 6/30/08 were 97,702,098 | 979        | 977          |
| Additional paid-in capital   | 295,906    | 291,120      |
| Retained earnings  | 616,001    | 560,534      |
| Less treasury stock at cost<br>14,406,635 shares at 3/31/09,<br>11,301,045 shares at 06/30/08  | (309,585)  | (251,180)    |
|  | <hr/>      | <hr/>        |
| Total stockholders' equity   | 603,301    | 601,451      |
|  | <hr/>      | <hr/>        |
| Total liabilities and stockholders' equity   | \$ 872,718 | \$ 1,021,044 |

See notes to condensed consolidated financial statements

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

|                     | Three Months Ended<br>March 31, |             | Nine Months Ended<br>March 31, |             |
|---------------------|---------------------------------|-------------|--------------------------------|-------------|
|                     | <u>2009</u>                     | <u>2008</u> | <u>2009</u>                    | <u>2008</u> |
| REVENUE             |                                 |             |                                |             |
| License             | \$ 12,730                       | \$ 18,441   | \$ 40,884                      | \$ 55,257   |
| Support and service | 151,839                         | 148,772     | 458,839                        | 431,663     |
| Hardware            | 15,839                          | 20,267      | 53,987                         | 67,305      |
|                     | <hr/>                           | <hr/>       | <hr/>                          | <hr/>       |
| Total               | 180,408                         | 187,480     | 553,710                        | 554,225     |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| <b>COST OF SALES</b>   |           |           |           |           |
| Cost of license  | 1,436     | 1,739     | 4,577     | 4,279     |
| Cost of support and service                                  | 96,732    | 93,871    | 289,366   | 269,858   |
| Cost of hardware   | 12,002    | 14,875    | 39,627    | 48,525    |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| Total  | 110,170   | 110,485   | 333,570   | 322,662   |
| <b>GROSS PROFIT</b>  | 70,238    | 76,995    | 220,140   | 231,563   |
| <b>OPERATING EXPENSES</b>                                    |           |           |           |           |
| Selling and marketing  | 12,873    | 13,597    | 40,650    | 41,080    |
| Research and development                                     | 10,694    | 11,340    | 32,431    | 32,703    |
| General and administrative                                   | 9,595     | 9,514     | 32,779    | 32,785    |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| Total  | 33,162    | 34,451    | 105,860   | 106,568   |
| <b>OPERATING INCOME</b>                                      | 37,076    | 42,544    | 114,280   | 124,995   |
| <b>INTEREST INCOME (EXPENSE)</b>                             |           |           |           |           |
| Interest income  | 56        | 267       | 765       | 1,955     |
| Interest expense   | (241)     | (583)     | (1,192)   | (770)     |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| Total  | (185)     | (316)     | (427)     | 1,185     |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b> | 36,891    | 42,228    | 113,853   | 126,180   |
| <b>PROVISION FOR INCOME TAXES</b>                            | 12,089    | 15,430    | 38,557    | 46,189    |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                     | 24,802    | 26,798    | 75,296    | 79,991    |
| <b>DISCONTINUED OPERATIONS</b>                               |           |           |           |           |
| Loss from operations of discontinued operations              | -         | (293)     | -         | (1,085)   |
| Income tax benefit   | -         | 107       | -         | 396       |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| Loss on discontinued operations                              | -         | (186)     | -         | (689)     |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| <b>NET INCOME</b>  | \$ 24,802 | \$ 26,612 | \$ 75,296 | \$ 79,302 |
| <br>   |           |           |           |           |
| Continuing operations  | \$ 0.30   | \$ 0.30   | \$ 0.89   | \$ 0.89   |
| Discontinued operations                                      | 0.00      | (0.00)    | 0.00      | (0.01)    |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| Diluted net income per share                                 | \$ 0.30   | \$ 0.30   | \$ 0.89   | \$ 0.88   |
| <br>   |           |           |           |           |
| Diluted weighted average shares outstanding                  | 83,480    | 88,907    | 85,020    | 90,221    |

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|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Continuing operations                     | \$ 0.30     | \$ 0.31     | \$ 0.89     | \$ 0.90     |
| Discontinued operations                   | 0.00        | (0.00)      | 0.00        | (0.01)      |
|   | <u>0.30</u> | <u>0.30</u> | <u>0.89</u> | <u>0.89</u> |
| Basic net income per share                | \$ 0.30     | \$ 0.30     | \$ 0.89     | \$ 0.89     |
| Basic weighted average shares outstanding | 82,873      | 87,615      | 84,310      | 88,725      |

See notes to condensed consolidated financial statements

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

|   | Nine Months Ended<br>March 31, |               |
|---|--------------------------------|---------------|
|   | <u>2009</u>                    | <u>2008</u>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                |               |
| Net Income  | \$ 75,296                      | \$ 79,302     |
| Adjustments to reconcile net income from operations<br>to cash from operating activities: |                                |               |
| Depreciation  | 29,547                         | 30,149        |
| Amortization  | 18,712                         | 16,096        |
| Deferred income taxes   | 2,495                          | 8,568         |
| Expense for stock-based compensation  | 1,569                          | 991           |
| Loss on disposal of property and equipment  | 890                            | 548           |
| Other, net  | (8)                            | (29)          |
| Changes in operating assets and liabilities, net of acquisitions:                         |                                |               |
| Receivables   | 109,423                        | 85,155        |
| Prepaid expenses, prepaid cost of product,<br>and other                                   | 124                            | 7,324         |
| Accounts payable  | (1,566)                        | (4,482)       |
| Accrued expenses  | (9,123)                        | (9,075)       |
| Income taxes  | (13,403)                       | (8,204)       |
| Deferred revenues   | (122,763)                      | (108,873)     |
| Net cash from operating activities  | <u>91,193</u>                  | <u>97,470</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                |               |
| Payment for acquisitions, net of cash<br>acquired   | (3,027)                        | (49,026)      |
| Capital expenditures  | (20,573)                       | (27,787)      |
| Computer software developed   | (18,923)                       | (17,489)      |
| Proceeds from investments   | 2,000                          | 2,000         |
| Purchase of investments   | (1,996)                        | (1,974)       |
| Proceeds from sale of property and<br>equipment   | 29                             | 2,083         |

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|   |                    |                    |
|---|--------------------|--------------------|
| Other, net  | -                  | (106)              |
| Net cash from investing activities                                    | (42,490)           | (92,299)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                          |                    |                    |
| Borrowings under lines of credit                                      | 64,960             | 109,339            |
| Repayments under lines of credit                                      | (77,144)           | (94,398)           |
| Purchase of treasury stock  | (58,405)           | (68,469)           |
| Dividends paid  | (19,827)           | (18,166)           |
| Excess tax benefits from stock-based compensation                     | 300                | 2,828              |
| Proceeds from issuance of common stock upon exercise of stock options | 1,531              | 14,863             |
| Minimum tax withholding payments related to option exercises          | (680)              | -                  |
| Proceeds from sale of common stock, net                               | 1,412              | 793                |
| Net cash from financing activities                                    | (87,853)           | (53,210)           |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                        | <b>\$ (39,150)</b> | <b>\$ (48,039)</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                 | <b>\$ 65,565</b>   | <b>\$ 88,617</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                       | <b>\$ 26,415</b>   | <b>\$ 40,578</b>   |

Net cash paid for income taxes was \$50,047 and \$42,041 for the nine months ended March 31, 2009 and 2008, respectively. The Company paid interest of \$1,407 and \$1,119 for the nine months ended March 31, 2009 and 2008, respectively. Capital expenditures exclude property and equipment additions totaling \$7,030 acquired via capital lease or that were in accrued liabilities.

See notes to condensed consolidated financial statements

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

## STOCK-BASED COMPENSATION

For the three months ended March 31, 2009 and 2008, there was \$587 and \$464, respectively, in compensation expense from equity-based awards. For the first nine months of fiscal 2009 and 2008 compensation expense from equity-based awards was \$1,569 and \$991, respectively.

Changes in stock options outstanding and exercisable are as follows:

|                            | Number of<br>Shares<br>(in thousands) | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic Value |
|----------------------------|---------------------------------------|---------------------------------------|------------------------------|
| Outstanding July 1, 2008   | 3,977                                 | \$ 17.42                              |                              |
| Granted                    | 50                                    | 17.45                                 |                              |
| Forfeited or expired       | (19)                                  | 20.77                                 |                              |
| Exercised                  | (174)                                 | 11.56                                 |                              |
| Outstanding March 31, 2009 | 3,834                                 | \$ 17.67                              | \$ 5,295                     |
| Exercisable March 31, 2009 | 3,765                                 | \$ 17.64                              | \$ 5,295                     |

For the nine-months ended March 31, 2009 and 2008, the weighted average fair value of options granted was \$7.87 and \$11.83, respectively, using the Black-Scholes option pricing model. In both years, all options were granted during the Company's second fiscal quarter. All options grants in fiscal 2009 and 2008 were made to independent directors of the Company.

The assumptions used in this model to estimate fair value and resulting values are as follows:

|                               | Nine Months Ended<br>March 31, |       |
|-------------------------------|--------------------------------|-------|
|                               | 2009                           | 2008  |
| Weighted Average Assumptions: |                                |       |
| Expected life (years)         | 3.72                           | 7.41  |
| Volatility                    | 30%                            | 28%   |
| Risk free interest rate       | 1.4%                           | 4.1%  |
| Dividend yield                | 1.72%                          | 0.98% |

As of March 31, 2009, there was \$125 of total unrecognized compensation cost related to outstanding options that is expected to be recognized over a weighted-average period of 0.51 years.



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The Restricted Stock Plan was adopted by the Company on November 1, 2005, for its employees. Up to 3,000 shares of common stock are available for issuance under the Plan. Upon issuance, shares of restricted stock are subject to forfeiture and to restrictions which limit the sale or transfer of the shares during the restriction period.

The following table summarizes non-vested share awards as of March 31, 2009, as well as activity for the nine months then ended:

|                                     | Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------------|--------|---|
| Non-vested shares at July 1, 2008   | 130    | \$ 24.87  |
| Granted                             | 139    | 19.21   |
| Vested                              | (9)    | 25.60   |
| Forfeited                           | -      | -   |
| Non-vested shares at March 31, 2009 | 260    | \$ 21.81  |

The non-vested shares will not participate in dividends during the restriction period. As a result, the weighted-average fair value of the non-vested share awards is based on the fair market value of the Company's equity shares on the grant date, less the present value of the expected future dividends to be declared during the restriction period.

At March 31, 2009, there was \$3,921 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 2.74 years.

### INCOME TAXES

At March 31, 2009, the Company had \$4,542 of gross unrecognized tax benefits, \$4,067 of which, if recognized would affect the Company's effective tax rate. The Company's policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. As of March 31, 2009, the Company had accrued interest and penalties of \$710 related to uncertain tax positions.

During the fiscal year ended June 30, 2008, the Internal Revenue Service concluded its examination of the Company's U.S. federal income tax returns for fiscal years ended June 2005 through 2006. However, the U.S. federal and state income tax returns for the year ended June 30, 2006 and all subsequent years still remain open to examination as of March 31, 2009 under statute of limitations rules. The Company anticipates potential changes of up to \$755 could reduce the unrecognized tax benefits balance within twelve months of March 31, 2009.

### COMPREHENSIVE INCOME

Comprehensive income for the three and nine-month periods ended March 31, 2009 and 2008 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 facility. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2008, there were 11,301 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,690 additional shares. On August 25, 2008, the Company's Board of

Directors approved an additional 5,000 share increase to the stock repurchase authorization. During the nine months ended March 31, 2009, the Company repurchased 3,106 treasury shares for \$58,405. The total cost of treasury shares at March 31, 2009 is \$309,585. At March 31, 2009, there were 14,407 shares in treasury stock and the Company had the authority to repurchase up to 5,584 additional shares.

## INTERIM FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America applicable to interim condensed consolidated financial statements, and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes, which are included in its Annual Report on Form 10-K ("Form 10-K") for the year ended June 30, 2008. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in its Form 10-K for the year ended June 30, 2008.

In the opinion of management of the Company, the accompanying condensed consolidated financial statements reflect all adjustments necessary (consisting solely of normal recurring adjustments) to present fairly the financial position of the Company as of March 31, 2009, and the results of its operations for the three and nine-month periods ended March 31, 2009 and 2008 and its cash flows for the nine-month periods ended March 31, 2009 and 2008.

The results of operations for the three and nine-month periods ended March 31, 2009 are not necessarily indicative of the results to be expected for the entire year.

## NOTE 2. ADDITIONAL INTERIM FOOTNOTE INFORMATION

The following additional information is provided to update the notes to the Company's annual consolidated financial statements for the developments during the three and nine months ended March 31, 2009.

## ACQUISITIONS

On January 1, 2005, the Company acquired all of the membership interests in RPM Intelligence, LLC, doing business as Stratika ("Stratika"). Stratika provides customer and product profitability solutions for financial institutions. As part of the purchase agreement, contingent purchase consideration was payable to the former members based upon the attainment of certain net operating income targets. As of June 30, 2008, up to \$9,752 of the purchase consideration was still contingent. During the first quarter of fiscal 2009, the Company paid \$3,000 in full settlement of this contingency to the former members of Stratika. This amount is included in goodwill. This acquired goodwill has been allocated to the banking systems and services segment and is deductible for federal income tax purposes.

On October 1, 2007, the Company acquired all of the capital stock of AudioTel Corporation ("AudioTel"). AudioTel is a provider of remittance, merchant capture, check imaging, document imaging and management, and telephone and internet banking solutions. As part of the purchase agreement, \$3,000 of consideration was contingent upon the achievement of operating income targets over the two-year period ending on September 30, 2009. During the third quarter of fiscal 2009, the Company and the former shareholders of AudioTel agreed to amend the purchase agreement to fully settle the contingency for \$15. This amount is included in goodwill. This acquired goodwill has been allocated to the banking systems and services segment and is non-deductible for federal income tax purposes.

Pro Forma results of recent acquisitions are not material; therefore, they are not presented.

## DEBT

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The Company renewed a bank credit line on March 7, 2009 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (3.25%

at March 31, 2009). The credit line expires March 7, 2010 and is secured by \$1,000 of investments. At March 31, 2009, no amount was outstanding.

The Company obtained an unsecured bank credit line on April 28, 2008 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (2.25% at March 31, 2009). The credit line matures on April 29, 2010. At March 31, 2009, no amount was outstanding.

An unsecured revolving bank credit facility allows short-term borrowings of up to \$150,000 which may be increased by the Company at any time prior to maturity to \$225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate), plus an applicable percentage in each case determined by the Company's leverage ratio. The unsecured revolving credit line terminates May 31, 2012. At June 30, 2008, the revolving bank credit facility balance was \$70,000. At March 31, 2009, the revolving bank credit facility balance was \$60,000. This outstanding balance bears interest at a weighted-average rate of 0.94%. This credit line is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of March 31, 2009, the Company was in compliance with all such covenants.

The Company has entered into various capital lease obligations for the use of certain computer equipment. Included in property and equipment are related assets of \$6,884, less accumulated depreciation of \$520. At March 31, 2009, \$4,742 was outstanding, of which \$4,740 was included in current maturities.

During the nine months ended March 31, 2009, the Company incurred interest totaling \$1,280, of which \$88 was capitalized.

### COMMITMENTS AND CONTINGENCIES

For fiscal 2009, the Board of Directors approved bonus plans for its executive officers and general managers. Under the plan, bonuses will be paid following the end of the current fiscal year based upon achievement of operating income targets and upon attainment of a superior return on average assets in comparison with a group of peer companies selected by the Compensation Committee. For general managers, one half of each manager's bonus is contingent upon meeting individualized business unit objectives established by the executive officer to whom the general manager reports.

The Company has also entered into agreements that provide its executive officers with compensation totaling two years' base salary and target bonus in the event the Company terminates the executive without cause within the period from 90 days before to two years after a change in control of the Company. The Company has also entered into agreements that provide its general managers with compensation totaling one year of base salary and target bonus under circumstances identical to those contained in the executive officer agreements.

### NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards ("SFAS") No. 157, "*Fair Value Measurements*" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and requires enhanced disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. Relative to SFAS 157, the FASB issued Staff Positions ("FSP") 157-1, 157-2 and 157-3. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, "*Accounting for Leases*" ("SFAS 13"), and its related interpretive accounting pronouncements that address leasing transactions. FSP 157-2 delayed the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all

nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. SFAS 157 was effective for the Company beginning on July 1, 2008. Its adoption did not have a material impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*," ("SFAS 141(R)") which replaces SFAS No. 141. SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquire and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users of the financial statements to evaluate the nature and financial effects of the business combination. Relative to SFAS 141(R), the FASB issued FSP 141(R)-1 on April 1, 2009. FSP 141(R)-1 eliminates the requirement under FAS 141(R) to record assets or liabilities at the acquisition date for noncontractual contingencies at fair value where it is deemed "more-likely-than-not" that an asset or liability would result. Under FSP 141(R)-1, such assets or liabilities would only need to be recorded where the fair value can be determined during the measurement period or where it is probable that an asset or liability exists at the acquisition date and the amount of fair value can be reasonably determined. SFAS 141(R) is effective for the Company on July 1, 2009. SFAS 141(R) will have an impact on the Company's accounting for business combinations on a prospective basis once adopted; however, the materiality of that impact cannot be determined at this time.

## NOTE 4. EARNINGS PER SHARE

|   | Three Months Ended<br>March 31, |             | Nine Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|--------------------------------|-------------|
|   | <u>2009</u>                     | <u>2008</u> | <u>2009</u>                    | <u>2008</u> |
| Income from continuing operations                     | \$ 24,802                       | \$ 26,798   | \$ 75,296                      | \$ 79,991   |
| Discontinued operations                               | -                               | (186)       | -                              | (689)       |
| Net Income  | \$ 24,802                       | \$ 26,612   | \$ 75,296                      | \$ 79,302   |
| Common share information:                             |                                 |             |                                |             |
| Weighted average shares outstanding for basic EPS     | 82,873                          | 87,615      | 84,310                         | 88,725      |
| Dilutive effect of stock options and restricted stock | 607                             | 1,292       | 710                            | 1,496       |
| Shares for diluted EPS                                | 83,480                          | 88,907      | 85,020                         | 90,221      |
| Basic Earnings per Share:                             |                                 |             |                                |             |
| Income from continuing operations                     | \$ 0.30                         | \$ 0.31     | \$ 0.89                        | \$ 0.90     |
| Discontinued operations                               | 0.00                            | (0.00)      | 0.00                           | (0.01)      |
| Basic Earnings per Share                              | \$ 0.30                         | \$ 0.30     | \$ 0.89                        | \$ 0.89     |
| Diluted Earnings per Share:                           |                                 |             |                                |             |
| Income from continuing operations                     | \$ 0.30                         | \$ 0.30     | \$ 0.89                        | \$ 0.89     |
| Discontinued operations                               | 0.00                            | (0.00)      | 0.00                           | (0.01)      |



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|                             |                   |                   |                   |                   |                   |                   |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Hardware                    | 42,417            | 11,570            | 53,987            | 52,152            | 15,153            | 67,305            |
|                             | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total                       | 456,172           | 97,538            | 553,710           | 459,925           | 94,300            | 554,225           |
|                             | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>COST OF SALES</b>        |                   |                   |                   |                   |                   |                   |
| Cost of license             | 3,937             | 640               | 4,577             | 3,450             | 829               | 4,279             |
| Cost of support and service | 240,770           | 48,596            | 289,366           | 226,779           | 43,079            | 269,858           |
| Cost of hardware            | 31,047            | 8,580             | 39,627            | 37,530            | 10,995            | 48,525            |
|                             | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total                       | 275,754           | 57,816            | 333,570           | 267,759           | 54,903            | 322,662           |
|                             | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>GROSS PROFIT</b>         | <b>\$ 180,418</b> | <b>\$ 39,722</b>  | <b>\$ 220,140</b> | <b>\$ 192,166</b> | <b>\$ 39,397</b>  | <b>\$ 231,563</b> |

|                                   | <u>March 31,</u>  | <u>June 30,</u>   |
|-----------------------------------|-------------------|-------------------|
|                                   | <u>2009</u>       | <u>2008</u>       |
| Property and equipment, net       |                   |                   |
| Bank systems and services         | \$ 206,626        | \$ 208,288        |
| Credit Union systems and services | 29,543            | 30,717            |
|                                   | <u>          </u> | <u>          </u> |
| Total                             | \$ 236,169        | \$ 239,005        |
| Identified intangible assets, net |                   |                   |
| Bank systems and services         | \$ 389,416        | \$ 385,671        |
| Credit Union systems and services | 45,929            | 46,463            |
|                                   | <u>          </u> | <u>          </u> |
| Total                             | \$ 435,345        | \$ 432,134        |

**NOTE 6. DISCONTINUED OPERATIONS**

On June 30, 2008, the Company sold its insurance agency outsourcing business, Banc Insurance Services, Inc. ("BIS") and Banc Insurance Agency, Inc. ("BIA"), to the division's management team and a private equity group for a nominal amount. The transaction resulted in a pre-tax loss of \$2,718.

In accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," the results of operations of this business for prior periods were reported as discontinued operations. The following presents the results of the discontinued operations for the quarters and nine-month periods ended March 31, 2009 and 2008:

|         | <u>Three Months Ended</u> |                   | <u>Nine Months Ended</u> |                   |
|---------|---------------------------|-------------------|--------------------------|-------------------|
|         | <u>March 31,</u>          |                   | <u>March 31,</u>         |                   |
|         | <u>2009</u>               | <u>2008</u>       | <u>2009</u>              | <u>2008</u>       |
|         | <u>          </u>         | <u>          </u> | <u>          </u>        | <u>          </u> |
| Revenue | \$ -                      | \$ 426            | \$ -                     | \$ 1,233          |

|                                 |    |                   |    |                   |    |                   |    |                   |
|---------------------------------|----|-------------------|----|-------------------|----|-------------------|----|-------------------|
| Loss before income taxes        | \$ | -                 | \$ | (293)             | \$ | -                 | \$ | (1,085)           |
| Income tax benefit              |    | -                 |    | 107               |    | -                 |    | 396               |
|                                 |    | <u>          </u> |    | <u>          </u> |    | <u>          </u> |    | <u>          </u> |
| Loss on discontinued operations | \$ | -                 | \$ | (186)             | \$ | -                 | \$ | (689)             |

## ITEM 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

## RESULTS OF OPERATIONS

## Background and Overview

We provide integrated computer systems for in-house and outsourced data processing to commercial banks, credit unions and other financial institutions. We have developed and acquired banking and credit union application software systems that we market, together with compatible computer hardware, to these financial institutions. We also perform data conversion and software implementation services of our systems and provide continuing customer support services after the systems are implemented. For our customers who prefer not to make an up-front capital investment in software and hardware, we provide our full range of products and services on an outsourced basis through our eight data centers in six physical locations and 13 item-processing centers located throughout the United States.

The US financial crisis is a primary concern at this time as it threatens our customers and our industry. The profits of many financial institutions have decreased and this has resulted in some reduction of demand for new products and services. We remain cautiously optimistic, however, with increasing portions of our business coming from recurring revenue, increases in backlog and an encouraging sales pipeline in specific areas. Our customers will continue to face regulatory and operational challenges which our products and services address, and in these times they have an even greater need for some of our solutions that directly address institutional profitability and efficiency. We face these uncertain times with a strong balance sheet and an unwavering commitment to superior customer service, and we believe that we are well positioned to address current opportunities as well as those which will arise when the economic rebound occurs.

A detailed discussion of the major components of the results of operations for the three and nine-month periods ended March 31, 2009 follows. All amounts are in thousands and discussions compare the current three and nine-month periods ended, March 31, 2009, to the prior year three and nine-month periods ended March 31, 2008.

## REVENUE

| License Revenue             | Three Months Ended |             | %<br>Change | Nine Months Ended |             | %<br>Change |
|-----------------------------|--------------------|-------------|-------------|-------------------|-------------|-------------|
|                             | March 31,          |             |             | March 31,         |             |             |
|                             | <u>2009</u>        | <u>2008</u> |             | <u>2009</u>       | <u>2008</u> |             |
| License                     | \$ 12,730          | \$ 18,441   | -31%        | \$ 40,884         | \$ 55,257   | -26%        |
| Percentage of total revenue | 7%                 | 10%         |             | 7%                | 10%         |             |

License revenue represents the delivery of application software systems contracted with us by the customer. We license our proprietary software products under standard license agreements that typically provide the customer with a non-exclusive, non-transferable right to use the software on a single computer and for a single financial institution

location.

As a result of the current economic downturn, we have seen some of our customers postpone making large capital investments in technology, including software. In addition, our customers are often electing to contract for our products via an outsourced delivery rather than a traditional license agreement. Our outsourced delivery does not require our customers to make a large, up-front capital investment in license fees or hardware. There was a decrease in license revenue during the current quarter and year-to-date compared to the prior year for most of our core software products, particularly for Episys®, our flagship core solution for credit unions. In addition, Episys revenue has decreased as we have seen a decrease in the average size of contracts delivered during the current fiscal year. Our license revenue for most of our complementary software solutions are also down compared to the prior year with the exception of certain of our item and document imaging solutions, particularly Synergy Enterprise Content Management, which has experienced 31% year-to-date growth over the prior year.

#### Support and Service Revenue

|                                | Three Months Ended<br>March 31, |             | %<br>Change | Nine Months Ended<br>March 31, |             | %<br>Change |
|--------------------------------|---------------------------------|-------------|-------------|--------------------------------|-------------|-------------|
|                                | <u>2009</u>                     | <u>2008</u> |             | <u>2009</u>                    | <u>2008</u> |             |
| Support and service            | \$ 151,839                      | \$ 148,772  | 2%          | \$ 458,839                     | \$ 431,663  | 6%          |
| Percentage of total<br>revenue | 84%                             | 79%         |             | 83%                            | 78%         |             |

|                                   | Qtr over Qtr Change |                 | Year over Year Change |                 |
|-----------------------------------|---------------------|-----------------|-----------------------|-----------------|
|                                   | <u>\$ Change</u>    | <u>% Change</u> | <u>\$ Change</u>      | <u>% Change</u> |
| In-house support & other services | \$ 3,526            | +6%             | \$ 16,796             | +9%             |
| EFT support                       | 2,144               | +6%             | 12,720                | +13%            |
| Outsourcing services              | 237                 | +1%             | 3,029                 | +3%             |
| Implementation services           | (2,840)             | -18%            | (5,369)               | -11%            |
| Total Increase                    | \$ 3,067            |                 | \$ 27,176             |                 |

Support and service fees are generated from implementation services (including conversion, installation, configuration and training), annual support to assist the customer in operating their systems and to enhance and update the software, outsourced data processing services and EFT Support services.

There was growth in most support and service revenue components for the third quarter and the first nine months of fiscal 2009. In-house support and other services increased partially as a result of license agreements for which the implementations were completed during the latest twelve months. In addition, because annual maintenance fees are usually based on supported institutions' asset size, in-house support revenues increase as our customers' assets grow. EFT support, including ATM and debit card transaction processing, online bill payment services, remote deposit capture and transaction processing services, experienced the largest percentage growth for the year-to-date period due to increased customer activity and expansion of our customer base. Overall, Outsourcing services revenue remained fairly flat. However, our core data processing revenue increased nearly 10% year-to-date compared to last year as our customers continue to choose outsourcing for the delivery of our solutions. These gains have been offset by a decrease in de-conversion fee revenue and in item processing revenue. We expect the trend towards outsourced product delivery to benefit Outsourcing services revenue; however, we further expect item-processing revenue to decline as fewer paper checks are processed in favor of check images and remote deposit capture. The decrease in implementation services revenue is related to fewer convert/merger implementations for our bank customers due to



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the slowdown in bank merger and acquisition activity in the current market environment. In addition, the decreases in license revenue in recent quarters are also negatively impacting revenues from implementations.

| Hardware Revenue            | Three Months Ended<br>March 31, |             | %<br>Change | Nine Months Ended<br>March 31, |             | %<br>Change |
|-----------------------------|---------------------------------|-------------|-------------|--------------------------------|-------------|-------------|
|                             | <u>2009</u>                     | <u>2008</u> |             | <u>2009</u>                    | <u>2008</u> |             |
| Hardware                    | \$ 15,839                       | \$ 20,267   | -22%        | \$ 53,987                      | \$ 67,305   | -20%        |
| Percentage of total revenue | 9%                              | 11%         |             | 10%                            | 12%         |             |

The Company has entered into remarketing agreements with several hardware manufacturers under which we sell computer hardware, hardware maintenance and related services to our customers. Revenue related to hardware sales is recognized when the hardware is shipped to our customers.

Hardware revenue decreased mainly due to a decrease in the number of hardware systems and components delivered in the current quarter compared to a year ago. Hardware revenue has been negatively impacted by the decrease in delivery of large license contracts. Additionally, during the prior fiscal year, hardware revenue was increased by increased IBM System i upgrades, which have not occurred at the same level in the current fiscal year.

#### BACKLOG

Our backlog increased 11% at March 31, 2009 to \$277,000 (\$55,000 in-house and \$222,000 outsourcing) from \$249,000 (\$62,000 in-house and \$187,000 outsourcing) at March 31, 2008. The current quarter backlog remained essentially flat compared to December 31, 2008, when backlog was \$277,900 (\$61,400 in-house and \$216,500 outsourcing). These backlog figures underscore the current shift in our customers' preference towards our outsourced delivery solutions.

#### COST OF SALES AND GROSS PROFIT

Cost of license represents the cost of software from third party vendors through remarketing agreements. These costs are recognized when license revenue is recognized. Cost of support and service represents costs associated with conversion and implementation efforts, ongoing support for our in-house customers, operation of our data and item processing centers providing services for our outsourced customers, EFT processing services and direct operating costs. These costs are recognized as they are incurred. Cost of hardware consists of the direct and related costs of purchasing the equipment from the manufacturers and delivery to our customers. These costs are recognized at the same time as the related hardware revenue is recognized. Ongoing operating costs to provide support to our customers are recognized as they are incurred.

| Cost of Sales and Gross Profit | Three Months Ended<br>March 31, |             | %<br>Change | Nine Months Ended<br>March 31, |             | %<br>Change |
|--------------------------------|---------------------------------|-------------|-------------|--------------------------------|-------------|-------------|
|                                | <u>2009</u>                     | <u>2008</u> |             | <u>2009</u>                    | <u>2008</u> |             |
| Cost of License                | \$ 1,436                        | \$ 1,739    | -17%        | \$ 4,577                       | \$ 4,279    | 7%          |
| Percentage of total revenue    | 1%                              | 1%          |             | 1%                             | 1%          |             |
| License Gross Profit           | \$ 11,294                       | \$ 16,702   | -32%        | \$ 36,307                      | \$ 50,978   | -29%        |
| Gross Profit Margin            | 89%                             | 91%         |             | 89%                            | 92%         |             |

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|                                  |            |            |      |            |            |      |
|----------------------------------|------------|------------|------|------------|------------|------|
| Cost of support and service      | \$ 96,732  | \$ 93,871  | 3%   | \$ 289,366 | \$ 269,858 | 7%   |
| Percentage of total revenue      | 54%        | 50%        |      | 52%        | 49%        |      |
| Support and Service Gross Profit | \$ 55,107  | \$ 54,901  | 0%   | \$ 169,473 | \$ 161,805 | 5%   |
| Gross Profit Margin              | 36%        | 37%        |      | 37%        | 37%        |      |
| Cost of hardware                 | \$ 12,002  | \$ 14,875  | -19% | \$ 39,627  | \$ 48,525  | -18% |
| Percentage of total revenue      | 7%         | 8%         |      | 7%         | 9%         |      |
| Hardware Gross Profit            | \$ 3,837   | \$ 5,392   | -29% | \$ 14,360  | \$ 18,780  | -24% |
| Gross Profit Margin              | 24%        | 27%        |      | 27%        | 28%        |      |
| TOTAL COST OF SALES              | \$ 110,170 | \$ 110,485 | 0%   | \$ 333,570 | \$ 322,662 | 3%   |
| Percentage of total revenue      | 61%        | 59%        |      | 60%        | 58%        |      |
| TOTAL GROSS PROFIT               | \$ 70,238  | \$ 76,995  | -9%  | \$ 220,140 | \$ 231,563 | -5%  |
| Gross Profit Margin              | 39%        | 41%        |      | 40%        | 42%        |      |

Cost of license decreased for the current quarter due to the decrease in license revenue; however, the decrease in cost of license has been tempered by greater third party reseller agreement software vendor costs. Those greater third party costs have caused a slight increase in year-to-date cost of license, even while license revenue is down for that period, as third party software has become a larger portion of our total license revenue. We expect this impact of third party software to continue to result in license gross profit margins that are lower than in prior years.

Cost of support and service increased for the quarter and year to date in fiscal 2009 commensurate with an increase in support and service revenue, which led to gross profit consistent with that realized in the prior year. Gross margin for the current quarter was down slightly from the same quarter a year ago, but remained flat year-to-date compared to last year. This was the result of a decrease in one-time early termination fees in our EFT and OutLink offerings, which have been mostly offset by cost controls.

Cost of hardware decreased in line with the decrease in hardware revenue for both the current quarter and year-to-date. Hardware gross profit margin decreased from 27% during last year's quarter to 24% for the current quarter due to changes in the mix of hardware equipment delivered, but remained fairly flat year-to-date in comparison to last year.

#### OPERATING EXPENSES

| Selling and Marketing       | Three Months Ended |             | %      | Nine Months Ended |             | %      |
|-----------------------------|--------------------|-------------|--------|-------------------|-------------|--------|
|                             | March 31,          |             |        | March 31,         |             |        |
|                             | <u>2009</u>        | <u>2008</u> | Change | <u>2009</u>       | <u>2008</u> | Change |
| Selling and marketing       | \$ 12,873          | \$ 13,597   | -5%    | \$ 40,650         | \$ 41,080   | -1%    |
| Percentage of total revenue | 7%                 | 7%          |        | 7%                | 7%          |        |

Dedicated sales forces, inside sales teams, technical sales support teams and channel partners conduct our sales efforts for our two market segments, and are overseen by regional sales managers. Our sales executives are responsible for pursuing lead generation activities for new core customers. Our account executives nurture long-term relationships with our client base and cross-sell our many complementary products and services.

For the three and nine months ended March 31, 2009, selling and marketing expenses decreased due to lower communication and marketing expenses, including lower product promotion and trade show expenses, than were

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incurred in the prior year. Overall, Selling and marketing expense as a percentage of total revenue for the quarter and year-to-date remained consistent in comparison to the same periods a year ago. Commission expense has remained level compared to last year due to lower license and hardware revenues, partially offset by growth in support and service revenue.

| Research and Development    | Three Months Ended<br>March 31, |             | %<br>Change | Nine Months Ended<br>March 31, |             | %<br>Change |
|-----------------------------|---------------------------------|-------------|-------------|--------------------------------|-------------|-------------|
|                             | <u>2009</u>                     | <u>2008</u> |             | <u>2009</u>                    | <u>2008</u> |             |
| Research and development    | \$ 10,694                       | \$ 11,340   | -6%         | \$ 32,431                      | \$ 32,703   | -1%         |
| Percentage of total revenue | 6%                              | 6%          |             | 6%                             | 6%          |             |

We devote significant effort and expense to develop new software, service products and continually upgrade and enhance our existing offerings. Typically, we upgrade all of our core and complementary software applications once per year. We believe our research and development efforts are highly efficient because of the extensive experience of our research and development staff and because our product development is highly customer-driven.

Research and development expenses decreased for the quarter primarily due to cost control measures undertaken by the Company. These measures included a reduction in the use of consultants and independent contractors compared to the same period a year ago. As a result of these efforts, Research and development expenses have remained level at 6% of total revenue for the quarter and year-to-date compared to last year.

| General and Administrative  | Three Months Ended<br>March 31, |             | %<br>Change | Nine Months Ended<br>March 31, |             | %<br>Change |
|-----------------------------|---------------------------------|-------------|-------------|--------------------------------|-------------|-------------|
|                             | <u>2009</u>                     | <u>2008</u> |             | <u>2009</u>                    | <u>2008</u> |             |
| General and administrative  | \$ 9,595                        | \$ 9,514    | 1%          | \$ 32,779                      | \$ 32,785   | 0%          |
| Percentage of total revenue | 5%                              | 5%          |             | 6%                             | 6%          |             |

General and administrative costs include all expenses related to finance, legal, human resources, plus all administrative costs. General and administrative expenses have remained level for the third quarter and the first nine months of fiscal year 2009 compared to the prior year, as cost control measures have slowed the growth in personnel costs and reduced travel and other operating expenses. General and administrative expenses have remained a consistent 5 to 6% of total revenue for the quarter and year-to-date periods compared to the same periods a year ago.

#### INTEREST INCOME (EXPENSE)

- The Company had net interest expense for the quarter ended March 31, 2008 of \$(185) compared to the prior year when it had net interest expense of \$(316). Interest income decreased \$211, while interest expense decreased \$342. Net interest income for the current nine month period reflects a decrease of \$1,612, with interest income decreasing \$1,190 and interest expense increasing \$422. For both periods, the changes in interest income are a result of fluctuating cash and cash equivalent balances coupled with decreasing yields on invested balances, while changes in interest expense are primarily due to borrowings on the revolving bank credit facility, which have been higher on average in the current fiscal year.

#### PROVISION FOR INCOME TAXES

- The provision for income taxes was \$12,089 and \$38,557 for the three and nine-month periods ended March 31, 2009 compared with \$15,430 and \$46,189 for the same periods last year. For the current quarter, the rate of income taxes was 32.8% of income before income taxes compared to 36.5% as reported for the same period in fiscal 2008. The decrease in the effective tax rate is partially attributable to the renewal of the Research and Experimentation Credit ("R&E Credit") during the second quarter. Since the R&E Credit had expired as of December 31, 2007, its tax effects were not considered in the tax rate for the third quarter in the prior year; however, it has been included for the current quarter.

## INCOME FROM CONTINUING OPERATIONS

- Income from continuing operations decreased 7% for the three months ended March 31, 2009. Income from continuing operations for the third quarter of fiscal 2009 was \$24,802 or \$0.30 per diluted share compared to \$26,798, which was also \$0.30 per diluted share, in the same period last year. Income from continuing operations decreased 6% for the nine-month period ended March 31, 2009 to \$75,296 compared to \$79,991 for the same nine month period last year. Diluted earnings per share remained at \$0.89 per diluted share for both year-to-date periods.

## DISCONTINUED OPERATIONS -

There was no gain or loss from discontinued operations for the quarter or nine-month period ended March 31, 2009. For the quarter ended March 31, 2008, loss on discontinued operations, net of income tax, was \$186. The income tax benefit on the loss amount was \$107. For the nine month period ended March 31, 2008, loss on discontinued operations, net of income tax, was \$689. The income tax benefit on the loss amount was \$396.

## BUSINESS SEGMENT DISCUSSION

The Company is a leading provider of integrated computer systems that perform data processing (available for in-house or outsourced installations) for banks and credit unions. The Company's operations are classified into two business 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<br>March 31, |             | Percent<br>Change | Nine Months Ended<br>March 31, |             | Percent<br>Change |
|---------------------|---------------------------------|-------------|-------------------|--------------------------------|-------------|-------------------|
|                     | <u>2009</u>                     | <u>2008</u> |                   | <u>2009</u>                    | <u>2008</u> |                   |
| Revenue             | \$ 150,232                      | \$ 156,206  | -4%               | \$ 456,172                     | \$ 459,925  | -1%               |
| Gross Profit        | \$ 58,487                       | \$ 64,545   | -9%               | \$ 180,418                     | \$ 192,166  | -6%               |
| Gross Profit Margin | 39%                             | 41%         |                   | 40%                            | 42%         |                   |

The decrease in revenue for the bank systems and services segment is primarily due to a decline in significant new license contracts delivered. This has negatively impacted both license and hardware revenue, and within the support and services revenue line, it has negatively impacted implementation revenue. The decrease to implementation revenue has largely offset gains in revenue among the other elements of support and services revenue. Bank segment gross profit and margins decreased from last year due to a decrease in license revenue and an increase in third party costs related to license and support and service revenue.

## Credit Union Systems and Services

|                     | Three Months Ended<br>March 31, |             | Percent<br>Change | Nine Months Ended<br>March 31, |             | Percent<br>Change |
|---------------------|---------------------------------|-------------|-------------------|--------------------------------|-------------|-------------------|
|                     | <u>2009</u>                     | <u>2008</u> |                   | <u>2009</u>                    | <u>2008</u> |                   |
| Revenue             | \$ 30,176                       | \$ 31,274   | -4%               | \$ 97,538                      | \$ 94,300   | 3%                |
| Gross Profit        | \$ 11,751                       | \$ 12,450   | -6%               | \$ 39,722                      | \$ 39,397   | 1%                |
| Gross Profit Margin | 39%                             | 40%         |                   | 41%                            | 42%         |                   |

For the current quarter, credit union systems and services revenue decreased due to decreases in both license and hardware revenue, which were partially offset by gains in support and service revenue. Revenue in the credit union systems and services segment grew in all components of support and service revenue, particularly EFT Support,

which experienced 38% growth year-to-date. This increase in support and services revenue was opposed by decreases in license and hardware revenue. License revenue was also impacted by a decrease in the average dollar size of core product license agreements in comparison to the same periods last year. Hardware revenue decreased due to sales mix and the amount of hardware delivered during the quarter and year-to-date periods. Credit union gross profit decreased 6% for the quarter, but is still up 1% year-to-date. Gross margins have slipped from 40% for last year's quarter to 39% this year and from 42% for the prior year-to-date to 41% in the current year.

## FINANCIAL CONDITION

### Liquidity

The Company's cash and cash equivalents decreased to \$26,415 at March 31, 2009, from \$65,565 at June 30, 2008, and from \$40,578 at March 31, 2007. The decrease in the cash balance from June 30, 2008 is primarily due to the purchase of 3,106 additional shares for the treasury. In addition, there have been fewer option exercises during the current fiscal year than in the past and our net borrowed cash is lower than in the prior year. Despite the decrease in our cash balances, we continue to generate solid cash from operations and expect that our current cash balances, future cash collections of billed amounts and available lines of credit will be sufficient to continue to support operations for the foreseeable future.

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

|   | Nine months ended<br>March 31, |             |
|---|--------------------------------|-------------|
|   | <u>2009</u>                    | <u>2008</u> |
| Net income                                | \$ 75,296                      | \$ 79,302   |
| Non-cash expenses                         | 53,205                         | 56,323      |
| Change in receivables                     | 109,423                        | 85,155      |
| Change in deferred revenue                | (122,763)                      | (108,873)   |
| Change in other assets and liabilities    | (23,968)                       | (14,437)    |
| Net cash provided by operating activities | \$ 91,193                      | \$ 97,470   |

The decrease in cash provided by operating activities is primarily attributable to the decrease in net income. In addition, we used more cash to reduce accrued liabilities, including accrued income taxes, in the current year than last year. Overall, the net balance of accounts payable and accrued liabilities has been reduced by \$24,092 during the current fiscal year.

Net cash used in investing activities for the current year is \$42,490 and included acquisition-related payments of \$3,027, capital expenditures of \$20,573, and capitalized software development of \$18,923. Cash used for investing activities in the first nine months of fiscal 2009 was offset by \$33 net proceeds from the sale of property and equipment and from sale of investments. During the first nine months of fiscal 2008, net cash used in investing activities of \$92,299 consisted of \$49,026 payment for acquisitions, \$27,787 in capital expenditures and \$17,489 for capitalized software development. Cash used for investing activities in the first nine months of fiscal 2008 was offset by \$2,003 net proceeds from investments, sale of property and equipment, and other items.

Net cash used in financing activities for the current year is \$87,853 and included the repurchase of 3,106 shares of our common stock for \$58,405, \$12,184 net repayment on our revolving debt facilities, and the payment of dividends of \$19,827. Cash used in financing activities was partially offset by proceeds of \$2,263 from the exercise of stock options and the sale of common stock plus \$300 from the excess tax benefits from stock option exercises. For the first

nine months of fiscal 2008, cash used in financing activities was \$53,210 and consisted of \$18,166 for dividends paid and \$68,469 for the purchase of treasury stock, offset by net borrowings on our debt facilities of \$14,941, \$15,656 proceeds from the exercise of stock options and the sale of common stock, and \$2,828 from the excess tax benefits of stock-based compensation.

At March 31, 2009, the Company had negative working capital of \$7,444; however, the largest component of current liabilities was deferred revenue of \$91,060, which primarily relates to our annual in-house maintenance agreements. The cash outlay necessary to provide the services related to these deferred revenues is significantly less than this recorded balance. Therefore, we do not anticipate any liquidity problems arising from this condition.

Beginning during fiscal 2008, US financial markets and many of the largest US financial institutions have been shaken by negative developments in the home mortgage industry and the mortgage markets, and particularly the markets for subprime mortgage-backed securities. Since that time, these and other such developments have resulted in a broad, global economic downturn. While we, as is the case with most companies, have experienced the effects of this downturn, we have not experienced any significant issues with our current collection efforts, and we believe that any future impact to our liquidity will be minimized by cash generated by recurring sources of revenue and due to our access to available lines of credit.

#### Capital Requirements and Resources

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$20,573 and \$27,787 for the nine-month periods ended March 31, 2009 and 2008, respectively, were made for facilities and additional equipment. These additions were primarily funded from cash generated by operations. Due to lower than anticipated year-to-date capital expenditures, we do not expect consolidated capital expenditures to exceed \$35,000 for fiscal year 2009.

The Company renewed a bank credit line on March 7, 2009 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (3.25%

at March 31, 2009). The credit line expires March 7, 2010 and is secured by \$1,000 of investments. At March 31, 2009, no amount was outstanding.

The Company obtained an unsecured bank credit line on April 28, 2008 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (2.25% at March 31, 2009). The credit line matures on April 29, 2010. At March 31, 2009, no amount was outstanding.

An unsecured revolving bank credit facility allows short-term borrowings of up to \$150,000 which may be increased by the Company at any time prior to maturity to \$225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate), plus an applicable percentage in each case determined by the Company's leverage ratio. The unsecured revolving credit line terminates May 31, 2012. At June 30, 2008, the revolving bank credit facility balance was \$70,000. At March 31, 2009, the revolving bank credit facility balance was \$60,000. This outstanding balance bears interest at a weighted-average rate of 0.94%. This credit line is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of March 31, 2009, the Company was in compliance with all such covenants.

The Company has entered into various capital lease obligations for the use of certain computer equipment. Included in property and equipment are related assets of \$6,884, less accumulated depreciation of \$520. At March 31, 2009, \$4,742 was outstanding, of which \$4,740 was included in current maturities.

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 facility. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2008, there were 11,301 shares in treasury stock and the Company had the remaining authority to repurchase up to 3,690 additional shares. On August 25, 2008, the Company's Board of Directors approved an additional 5,000 share increase to the stock repurchase authorization. During the nine months ended March 31, 2009, the Company repurchased 3,106 treasury shares for \$58,405. The total cost of treasury shares at March 31, 2009 is \$309,585. At March 31, 2009, there were 14,407 shares in treasury stock and the Company had the authority to repurchase up to 5,584 additional shares.

#### Critical Accounting Policies

The Company regularly reviews its selection and application of significant accounting policies and related financial disclosures. The application of these accounting policies requires that management make estimates and judgments. The estimates that affect the application of our most critical accounting policies and require our most significant judgments are outlined in Management's Discussion and Analysis of Financial Condition and Results of Operations - "Critical Accounting Policies" - contained in our annual report on Form 10-K for the year ended June 30, 2008.

#### Forward Looking Statements

The Management's Discussion and Analysis of Results of Operations and Financial Condition and other portions of this report contain forward-looking statements within the meaning of federal securities laws. Actual results are subject to risks and uncertainties, including both those specific to the Company and those specific to the industry, which could cause results to differ materially from those contemplated. The risks and uncertainties include, but are not limited to, the matters detailed at Risk Factors in its Annual Report on Form 10-K for the fiscal year ended June 30, 2008. Undue reliance should not be placed on the forward-looking statements. The Company does not undertake any obligation to publicly update any forward-looking statements.

#### CONCLUSION

Even in this current challenging market, the Company's results of operations and its financial position continue to be solid. While revenue and gross profit have remained flat or decreased slightly compared to a year ago, we continue to be cautiously optimistic as we see the increases in our recurring revenue and the increases in our backlog of contracts for products and services yet to be delivered. Our overall results reflect a tough economic environment, but also the continuing attitude of cooperation and commitment by each employee, management's ongoing cost control efforts and our commitment to continue delivering top quality products and superior services to all of our customers in the markets we serve. We believe we are well positioned to address current challenges and opportunities as well as those which will arise when the economic rebound occurs.

#### 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 investments in U.S. government securities. We actively monitor these risks through a variety of controlled procedures involving senior management. We do not currently use any derivative financial instruments. Based on the controls in place, credit worthiness of the customer base and the relative size of these financial instruments, we believe the risk associated with these exposures will not have a material adverse effect on our consolidated financial position or results of operations.

## ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of our management, including 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 our disclosure controls and procedures are effective 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.

## 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 for the three month period ended March, 31, 2009:

| Period              | Total Number of Shares Purchased | Average Price of Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet Be Purchased Under the Plans <sup>(1)</sup> |
|---------------------|----------------------------------|------------------------|--|---|
| January 1-31, 2009  | 0                                |                        | 0  | 6,083,981   |
| February 1-28, 2009 | 400,000                          | \$ 16.45               | 400,000  | 5,683,981   |
| March 1-31, 2009    | 100,000                          | \$ 15.87               | 100,000  | 5,583,981   |
| Total               | 500,000                          | \$ 16.34               | 500,000  | 5,583,981   |

(1)

Purchases made under the stock repurchase authorization approved by the Company's Board of Directors on October 4, 2002 in the original amount of 3.0 million shares, increased by 2.0 million shares on April 29, 2005, by 5.0 million shares on August 28, 2006, and by 5.0 million shares on February 4, 2008. On August 25, 2008, the Company's Board of Directors approved an additional 5.0 million shares to the stock repurchase authorization. These authorizations have no specific dollar or share price targets and no expiration dates.

## ITEM 6. EXHIBITS

31.1 Certification of the Chief Executive Officer dated May 11, 2009.

31.2 Certification of the Chief Financial Officer dated May 11, 2009.



32.1 Written Statement of the Chief Executive Officer dated May 11, 2009.

32.2 Written Statement of the Chief Financial Officer dated May 11, 2009.

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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: May 11, 2009

/s/ John F. Prim

John F. Prim

Chief Executive Officer and Director

Date: May 11, 2009

/s/ Kevin D. Williams

Kevin D. Williams

Chief Financial Officer and Treasurer