

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
February 08, 2008

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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 December 31, 2007

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

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

Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of January 31, 2008, Registrant has 87,283,310 shares of common stock outstanding (\$0.01 par value)

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JACK HENRY & ASSOCIATES, INC.

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|   |            |            |
|---|------------|------------|
| Total current assets  | 208,610    | 350,385    |
| PROPERTY AND EQUIPMENT, net   | 250,236    | 249,882    |
| OTHER ASSETS:   |            |            |
| Prepaid cost of product   | 11,872     | 15,009     |
| Computer software, net of amortization                                  | 70,281     | 59,190     |
| Other non-current assets  | 10,177     | 10,754     |
| Customer relationships, net of amortization                             | 68,036     | 61,248     |
| Trade names   | 4,009      | 4,009      |
| Goodwill  | 284,584    | 248,863    |
|   | <hr/>      | <hr/>      |
| Total other assets  | 448,959    | 399,073    |
|   | <hr/>      | <hr/>      |
| Total assets  | \$ 907,805 | \$ 999,340 |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                    |            |            |
| CURRENT LIABILITIES:  |            |            |
| Accounts payable  | \$ 5,963   | \$ 11,481  |
| Accrued expenses  | 25,175     | 34,920     |
| Accrued income taxes  | 13,979     | 17,882     |
| Note payable and current maturities of capital leases                   | 25,218     | 70,503     |
| Deferred revenues   | 133,827    | 195,691    |
|   | <hr/>      | <hr/>      |
| Total current liabilities   | 204,162    | 330,477    |
| LONG TERM LIABILITIES:  |            |            |
| Deferred revenues   | 14,341     | 16,865     |
| Deferred income taxes   | 51,208     | 53,290     |
| Other long-term liabilities, net of current maturities                  | 7,891      | 343        |
|   | <hr/>      | <hr/>      |
| Total long term liabilities   | 73,440     | 70,498     |
|   | <hr/>      | <hr/>      |
| Total liabilities   | 277,602    | 400,975    |
| STOCKHOLDERS' EQUITY  |            |            |
| Preferred stock - \$1 par value; 500,000 shares authorized, none issued | -          | -          |
| Common stock - \$0.01 par value: 250,000,000 shares authorized;         |            |            |
| Shares issued at 12/31/07 were  |            |            |
| 97,135,009  |            |            |
| Shares issued at 06/30/07 were  | 971        | 962        |
| 96,203,030  |            |            |
| Additional paid-in capital  | 280,660    | 262,742    |
| Retained earnings   | 522,070    | 484,845    |

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|  |                |                |
|--|----------------|----------------|
| Less treasury stock at cost 8,000,828<br>shares at 12/31/07,<br>7,100,967 shares at 06/30/07 | (173,498)      | (150,184)      |
| Total stockholders' equity   | <u>630,203</u> | <u>598,365</u> |
| Total liabilities and stockholders'<br>equity  | \$ 907,805     | \$ 999,340     |

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>December 31, |                | Six Months Ended<br>December 31, |                |
|----------------------------------|------------------------------------|----------------|----------------------------------|----------------|
|                                  | <u>2007</u>                        | <u>2006</u>    | <u>2007</u>                      | <u>2006</u>    |
| <b>REVENUE</b>                   |                                    |                |                                  |                |
| License                          | \$ 23,294                          | \$ 21,173      | \$ 36,816                        | \$ 36,712      |
| Support and service              | 145,336                            | 124,235        | 283,698                          | 239,812        |
| Hardware                         | 23,596                             | 21,836         | 47,038                           | 41,335         |
| Total                            | <u>192,226</u>                     | <u>167,244</u> | <u>367,552</u>                   | <u>317,859</u> |
| <b>COST OF SALES</b>             |                                    |                |                                  |                |
| Cost of license                  | 1,770                              | 778            | 2,540                            | 1,334          |
| Cost of support and service      | 89,284                             | 77,501         | 177,020                          | 150,551        |
| Cost of hardware                 | 16,352                             | 15,977         | 33,650                           | 29,679         |
| Total                            | <u>107,406</u>                     | <u>94,256</u>  | <u>213,210</u>                   | <u>181,564</u> |
| <b>GROSS PROFIT</b>              | 84,820                             | 72,988         | 154,342                          | 136,295        |
| <b>OPERATING EXPENSES</b>        |                                    |                |                                  |                |
| Selling and marketing            | 14,098                             | 12,973         | 28,050                           | 24,939         |
| Research and development         | 11,404                             | 8,989          | 21,363                           | 17,505         |
| General and administrative       | 13,463                             | 11,407         | 23,271                           | 21,313         |
| Total                            | <u>38,965</u>                      | <u>33,369</u>  | <u>72,684</u>                    | <u>63,757</u>  |
| <b>OPERATING INCOME</b>          | 45,855                             | 39,619         | 81,658                           | 72,538         |
| <b>INTEREST INCOME (EXPENSE)</b> |                                    |                |                                  |                |
| Interest income                  | 339                                | 406            | 1,688                            | 1,962          |
| Interest expense                 | (104)                              | (299)          | (187)                            | (515)          |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Total                                       | 235       | 107       | 1,501     | 1,447     |
| INCOME BEFORE INCOME TAXES                  | 46,090    | 39,726    | 83,159    | 73,985    |
| PROVISION FOR INCOME TAXES                  | 16,939    | 11,938    | 30,469    | 24,785    |
| NET INCOME                                  | \$ 29,151 | \$ 27,788 | \$ 52,690 | \$ 49,200 |
| Diluted net income per share                | \$ 0.32   | \$ 0.30   | \$ 0.58   | \$ 0.53   |
| Diluted weighted average shares outstanding | 90,922    | 92,246    | 90,878    | 92,569    |
| Basic net income per share                  | \$ 0.33   | \$ 0.31   | \$ 0.59   | \$ 0.54   |
| Basic weighted average shares outstanding   | 89,393    | 90,211    | 89,281    | 90,634    |

See notes to condensed consolidated financial statements

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

|   | Six Months Ended<br>December 31, |             |
|---|----------------------------------|-------------|
|   | <u>2007</u>                      | <u>2006</u> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                  |             |
| Net Income  | \$ 52,690                        | \$ 49,200   |
| Adjustments to reconcile net income from operations<br>to cash from operating activities: |                                  |             |
| Depreciation  | 19,746                           | 17,890      |
| Amortization  | 10,376                           | 5,968       |
| Deferred income taxes   | 836                              | 5,135       |
| Loss on disposal of property and<br>equipment   | 247                              | 102         |
| Stock- based compensation   | 479                              | 413         |
| Other, net  | (19)                             | (57)        |
| Changes in operating assets and liabilities, net of acquisitions:                         |                                  |             |
| Receivables   | 82,959                           | 67,131      |
| Prepaid expenses, prepaid cost of product, and other                                      | 4,245                            | 3,768       |
| Accounts payable  | (5,935)                          | (6,370)     |
| Accrued expenses  | (10,156)                         | (6,910)     |
| Income taxes  | (1,721)                          | 8,028       |
| Deferred revenues   | (70,326)                         | (58,220)    |

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|   |                    |                    |
|---|--------------------|--------------------|
| Net cash from operating activities                                    | 83,421             | 86,078             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                          |                    |                    |
| Payment for acquisitions, net of cash acquired                        | (49,026)           | (35,980)           |
| Capital expenditures  | (21,071)           | (15,496)           |
| Computer software developed   | (11,651)           | (10,094)           |
| Proceeds from sale of equipment                                       | 2,069              | -                  |
| Proceeds from investments   | 1,000              | 3,660              |
| Purchase of investments   | (981)              | (2,552)            |
| Other, net  | (72)               | -                  |
|   | <hr/>              | <hr/>              |
| Net cash from investing activities                                    | (79,732)           | (60,462)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                          |                    |                    |
| Note payable, net   | (44,920)           | (25,089)           |
| Purchase of treasury stock  | (23,313)           | (48,030)           |
| Dividends paid  | (11,617)           | (9,986)            |
| Excess tax benefits from stock-based compensation                     | 2,688              | 1,655              |
| Proceeds from issuance of common stock upon exercise of stock options | 12,552             | 8,995              |
| Proceeds from sale of common stock, net                               | 440                | 325                |
|   | <hr/>              | <hr/>              |
| Net cash from financing activities                                    | (64,170)           | (72,130)           |
|   | <hr/>              | <hr/>              |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                        | <b>\$ (60,481)</b> | <b>\$ (46,514)</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                 | <b>\$ 88,617</b>   | <b>\$ 74,139</b>   |
|   | <hr/>              | <hr/>              |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                       | <b>\$ 28,136</b>   | <b>\$ 27,625</b>   |

Net cash paid for income taxes was \$28,666 and \$9,933 for the six months ended December 31, 2007 and 2006, respectively. The Company paid interest of \$707 and \$842 for the six months ended December 31, 2007 and 2006, respectively.

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 December 31, 2007 and 2006, there was \$368 and \$265, respectively, in compensation expense from equity-based awards. Pre-tax operating income for the first six months of fiscal 2008 and 2007 includes \$479 and \$413 of stock-based compensation costs, respectively.

Changes in stock options outstanding and exercisable are as follows:

|                               | Number of<br>Shares         | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic Value |
|-------------------------------|-----------------------------|---------------------------------------|------------------------------|
|                               | <u>                    </u> | <u>                    </u>           | <u>                    </u>  |
| Outstanding July 1, 2007      | 5,389                       | \$ 16.24                              |                              |
| Granted                       | 50                          | 28.52                                 |                              |
| Forfeited                     | (4)                         | 25.39                                 |                              |
| Exercised                     | (917)                       | 13.68                                 |                              |
|                               | <u>                    </u> | <u>                    </u>           |                              |
| Outstanding December 31, 2007 | 4,518                       | \$ 16.89                              | \$ 35,269                    |
| Exercisable December 31, 2007 | 4,420                       | \$ 16.74                              | \$ 35,019                    |

For the six months ended December 31, 2007 and 2006, the weighted average fair value of options granted was \$11.83 and \$10.43, respectively, using the Black-Scholes option pricing model. In both years, all options were granted during the second quarter.

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

|                               | Six Months Ended<br>December 31, |             |
|-------------------------------|----------------------------------|-------------|
|                               | <u>2007</u>                      | <u>2006</u> |
| Weighted Average Assumptions: |                                  |             |
| Expected life (years)         | 7.41                             | 7.41        |
| Volatility                    | 28%                              | 37%         |
| Risk free interest rate       | 4.1%                             | 4.7%        |



|                |       |       |
|----------------|-------|-------|
| Dividend yield | 0.98% | 0.96% |
|----------------|-------|-------|

As of December 31, 2007, there was \$453 of total unrecognized compensation cost related to unamortized compensation expense related to outstanding options that is expected to be recognized over a weighted-average period of 0.72 years.

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. As of December 31, 2007, 130 shares of restricted stock have been issued, however none of these shares have vested.

The following table summarizes non-vested share awards as of December 31, 2007, as well as activity for the six months then ended:

|  | Shares            | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--|-------------------|---|
|  | <u>          </u> | <u>          </u>                               |
| Non-vested shares at July 1, 2007      | -                 | \$ -  |
| Granted                                | 130               | 24.64   |
| Vested                                 | -                 | -   |
| Forfeited                              | -                 | -   |
|  | <u>          </u> | <u>          </u>                               |
| Non-vested shares at December 31, 2007 | 130               | \$ 24.64  |

The non-vested shares will be non-voting and 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 December 31, 2007, there was \$2,899 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 4.13 years.

#### COMPREHENSIVE INCOME

Comprehensive income for the three and six-month periods ended December 31, 2007 and 2006 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, 2007, there were 7,101 shares in treasury stock and the Company had the remaining authority to repurchase up to 2,890 shares. During the six months ended December 31, 2007, the Company repurchased 900 treasury shares for \$23,314. The total cost of treasury shares at December 31, 2007 is \$173,498. At December 31, 2007, there were 8,001 shares in treasury stock and the Company had the authority to repurchase up to 1,990 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, 2007. 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, 2007.

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 December 31, 2007, and the results of its operations for the three and six-month periods ended December 31, 2007 and 2006 and its cash flows for the six-month periods ended December 31, 2007 and 2006.

The results of operations for the three and six-month periods ended December 31, 2007 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 six months ended December 31, 2007.

#### ACQUISITIONS

On July 1, 2007, the Company acquired all of the capital stock of Gladiator Technology Services, Inc. ("Gladiator"). Gladiator is a provider of technology security services for financial institutions. The purchase price for Gladiator, \$17,425 paid in cash, was preliminarily allocated to the assets and liabilities acquired based on then estimated fair values at the acquisition date, resulting in an allocation of \$(729) to working capital, \$779 to property and equipment, \$4,859 to customer relationships, and \$12,516 to goodwill. The acquired goodwill has been allocated to the banking systems and services segment. The Company and the former shareholders of Gladiator jointly made an IRC Section 338(h)(10) election for this acquisition. This election allows treatment of this acquisition as an asset acquisition, which permits the Company to amortize the customer relationships and goodwill for 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. The purchase price for AudioTel, \$32,092 paid in cash, was preliminarily allocated to the assets and liabilities acquired based on then estimated fair values at the acquisition date, resulting in an allocation of \$(2,510) to working capital, \$569 to property and equipment, \$6,017 to customer relationships, \$5,728 to capitalized software, and \$22,288 to goodwill. The acquired goodwill has been allocated to the banking systems and services segment. Contingent purchase consideration of up to \$3,000 may be due based on AudioTel's operating income over the two-year period ending September 30, 2009. This additional purchase price, if any, will be payable on or before November 15, 2009.

The following unaudited pro forma consolidated financial information is presented as if the acquisitions completed in the current and prior fiscal years had occurred at the beginning of the earliest period presented. This unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as being indicative of the historical results that would have been obtained if these acquisitions had actually occurred during those periods, or the results that may be obtained in the future as a result of these acquisitions.

Pro Forma (unaudited)

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Three Months Ended

Six Months Ended

December 31,

December 31,

2007

2006

2007

2006

Revenue

\$ 192,226

\$ 171,775

\$ 370,667

\$ 328,148

Gross profit

84,820

75,713

155,681

142,809

Net Income

\$ 29,151

\$ 27,724

\$ 52,776

\$ 50,021

Earnings per share - diluted

\$ 0.32

|                            |    |        |
|----------------------------|----|--------|
|                            | \$ | 0.30   |
|                            | \$ | 0.58   |
|                            | \$ | 0.54   |
| Diluted Shares             |    |        |
|                            |    | 90,922 |
|                            |    | 92,246 |
|                            |    | 90,878 |
|                            |    | 92,569 |
| Earnings per share - basic |    |        |
|                            | \$ | 0.33   |
|                            | \$ | 0.31   |
|                            | \$ | 0.59   |
|                            | \$ | 0.55   |
| Basic Shares               |    |        |
|                            |    | 89,393 |
|                            |    | 90,211 |
|                            |    | 89,281 |
|                            |    | 90,634 |

## DEBT

The Company renewed a bank credit line on March 7, 2007 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (7.25%

at December 31, 2007). The credit line expires March 7, 2008 and is secured by \$1,000 of investments. At December 31, 2007, no amount was outstanding.

The Company obtained an unsecured bank credit line on April 28, 2006 which provides for funding of up to \$5,000 and bears interest at the bank's prime rate less 1% (6.25% at December 31, 2007). The credit line matures on April 30, 2008. At December 31, 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, 2007, the revolving bank credit facility balance was \$70,000. At December 31, 2007, the revolving bank credit facility balance was \$25,000.

The company has entered into various capital lease obligations totaling \$1,168 for the use of certain computer equipment. Those amounts have been included in property and equipment and the related depreciation is included in total depreciation expense. At December 31, 2007, \$351 was outstanding, of which \$218 is included in current maturities.

During the six months ended December 31, 2007, the Company incurred interest totaling \$416, of which \$230 was capitalized.

#### COMMITMENTS AND CONTINGENCIES

For fiscal 2008, the Board of Directors approved bonus plans for its executive officers and general managers for the current fiscal year. 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.

The Company has also entered into agreements that provide its executive officers with compensation totaling two years' base salary and 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.

#### NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

On July 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48") - *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures.

Adopting FIN 48 had the following impact on our financial statements: decreased net deferred tax liability by \$2,914 and retained earnings by \$3,850; and increased long term liabilities by \$6,764. As of July 1, 2007, the Company had \$5,838 of unrecognized tax benefits of which \$3,366, if recognized, would affect our effective tax rate. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. As of July 1, 2007, we had accrued interest and penalties of \$1,345 related to uncertain tax positions.

We are currently under audit by the IRS for tax years 2005 through 2006. It is possible that the audit cycle may conclude in the next 12 months and that the unrecognized tax benefits we have recorded may change. We anticipate potential changes through the resolution of examinations that could reduce previously recorded unrecognized tax benefits up to \$3,000.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements for purposes of assessing materiality. SAB 108 requires that a registrant assess the

materiality of a current period misstatement by determining how the current period's balance sheet would be affected in correcting a misstatement without considering the year(s) in which the misstatement originated and how the current period's income statement is misstated, including the reversing effect of prior year misstatements. SAB 108 was effective for the Company on June 30, 2007. The cumulative effect of applying SAB 108 may be recorded by adjusting current year beginning balances of the affected assets and liabilities with a corresponding adjustment to the current year opening balance in retained earnings if certain criteria are met. The adoption of this bulletin did not have a material impact on the Company's consolidated financial statements.

In September 2006, the 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. SFAS 157 is effective for the Company beginning July 1, 2008. We do not anticipate that the adoption of this Standard will have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115*" ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure its financial assets and liabilities. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for the Company beginning July 1, 2008. The Company is currently determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its 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. SFAS 141(R) is effective for the Company on July 1, 2009. The adoption of 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.

#### NOTE 4. SHARES USED IN COMPUTING NET INCOME PER SHARE

|   | Three Months Ended<br>December 31, |              | Six Months Ended<br>December 31, |              |
|---|------------------------------------|--------------|----------------------------------|--------------|
|   | <u>2007</u>                        | <u>2006</u>  | <u>2007</u>                      | <u>2006</u>  |
| Weighted average number of common shares<br>Outstanding - basic | 89,393                             | 90,211       | 89,281                           | 90,634       |
| Common stock equivalents  | <u>1,529</u>                       | <u>2,035</u> | <u>1,597</u>                     | <u>1,935</u> |

Weighted average number of common and  
common

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|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Equivalent shares outstanding - diluted | 90,922 | 92,246 | 90,878 | 92,569 |
|---|--------|--------|--------|--------|

Per share information is based on the weighted average number of common shares outstanding for the periods ended December 31, 2007 and 2006. Stock options have been included in the calculation of income per share to the extent they are dilutive. Anti-dilutive stock options to purchase approximately 416 and 826 shares and 400 and 1,316 shares for the three and six-month periods ended December 31, 2007 and 2006, respectively, were not included in the computation of diluted income per common share.

NOTE 5. BUSINESS SEGMENT INFORMATION

The Company is a leading provider of integrated computer systems that perform data processing (both in-house and outsourced) for banks and credit unions. The Company's operations are classified into two business segments: bank systems and services and credit union systems and services. 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

Three Months Ended

December 31, 2007

---

December 31, 2006

---

Bank

Credit Union

Total

Bank

Credit Union

Total

REVENUE

License

\$ 16,267

\$ 7,027

\$ 23,294

\$ 16,965

\$ 4,208

|                     |           |
|---------------------|-----------|
|                     | \$ 21,173 |
| Support and service |           |
|                     | 124,834   |
|                     | 20,502    |
|                     | 145,336   |
|                     | 105,065   |
|                     | 19,170    |
|                     | 124,235   |
| Hardware            |           |
|                     | 18,929    |
|                     | 4,667     |
|                     | 23,596    |
|                     | 17,846    |
|                     | 3,990     |
|                     | 21,836    |
| <hr/>               |           |
| <hr/>               |           |
| <hr/>               |           |
| <hr/>               |           |
| <hr/>               |           |
| <hr/>               |           |
| Total               |           |
|                     | 160,030   |
|                     | 32,196    |
|                     | 192,226   |
|                     | 139,876   |
|                     | 27,368    |
|                     | 167,244   |
| <hr/>               |           |



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COST OF SALES

Cost of license

1,458

312

1,770

778

-

778

Cost of support and service

75,181

14,103

89,284

63,839

13,662

77,501

Cost of hardware

13,057

3,295

16,352

12,959

3,018

15,977

---



Credit Union

Total

Bank

Credit Union

Total

REVENUE

License

\$ 25,186

\$ 11,630

\$ 36,816

\$ 29,563

\$ 7,149

\$ 36,712

Support and service

242,465

41,233

283,698

202,079

37,733

239,812

Hardware

36,875

10,163

47,038

32,944

8,391

41,335

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Total

304,526

63,026

367,552

264,586

53,273

317,859

---



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COST OF SALES

Cost of license

2,112

428

2,540

1,321

13

1,334

Cost of support and service

148,800

28,220

|                  |         |
|------------------|---------|
|                  | 177,020 |
|                  | 123,388 |
|                  | 27,163  |
|                  | 150,551 |
| Cost of hardware |         |
|                  | 26,219  |
|                  | 7,431   |
|                  | 33,650  |
|                  | 23,404  |
|                  | 6,275   |
|                  | 29,679  |
| <hr/>            |         |
| <hr/>            |         |
| <hr/>            |         |
| <hr/>            |         |
| <hr/>            |         |
| <hr/>            |         |
| Total            |         |
|                  | 177,131 |
|                  | 36,079  |
|                  | 213,210 |
|                  | 148,113 |
|                  | 33,451  |
|                  | 181,564 |
| <hr/>            |         |
| <hr/>            |         |
| <hr/>            |         |
| <hr/>            |         |
| <hr/>            |         |
| <hr/>            |         |

GROSS PROFIT

\$ 127,395  
 \$ 26,947  
 \$ 154,342  
 \$ 116,473  
 \$ 19,822  
 \$ 136,295

|                                   | <u>December 31,</u> | <u>June 30,</u> |
|-----------------------------------|---------------------|-----------------|
|                                   | <u>2007</u>         | <u>2007</u>     |
| Property and equipment, net       |                     |                 |
| Bank systems and services         | \$ 218,606          | \$ 217,195      |
| Credit Union systems and services | 31,630              | 32,687          |
|                                   | <hr/>               | <hr/>           |
| Total                             | \$ 250,236          | \$ 249,882      |
| <br>                              |                     |                 |
| Identified intangible assets, net |                     |                 |
| Bank systems and services         | \$ 378,104          | \$ 321,096      |
| Credit Union systems and services | 48,806              | 52,214          |
|                                   | <hr/>               | <hr/>           |
| Total                             | \$ 426,910          | \$ 373,310      |

#### NOTE 6. SUBSEQUENT EVENTS

On February 4, 2008, the Company's Board of Directors declared a quarterly cash dividend of \$.075 per share of common stock, payable on March 6, 2008, to shareholders of record on February 19, 2008.

Also on February 4, 2008, the Company's Board of Directors increased its stock repurchase authorization by 5,000 shares, bringing the total authorized for repurchase to 15,000 shares. Through the date of this increase, the Company has repurchased 9,834 shares under these authorizations, leaving 5,166 shares authorized for future repurchases.

#### 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

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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 22 item-processing centers located throughout the United States.

A detailed discussion of the major components of the results of operations for the three and six-month periods ended December 31, 2007 follows. All amounts are in thousands and discussions compare the current three and six-month periods ended December 31, 2007, to the prior year three and six-month periods ended December 31, 2006.

REVENUE

License Revenue

Three Months Ended

%

Six Months Ended

%

December 31,

---

Change

---

December 31,

---

Change

---

2007

2006

2007

2006

License

\$ 23,294

\$ 21,173

10%

\$ 36,816

\$ 36,712

&lt;1%

Percentage of total revenue

12%

13%

10%

12%

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.

The increase in license revenue for the quarter can be primarily attributed to strong sales of Episys®, our flagship core processing system aimed at larger credit unions, compared to the same period a year ago. In addition, sales of Yellow Hammer™ BSA, our new web-based BSA compliance and risk mitigation solution, were strong during the current quarter. This product was not sold until the 3<sup>rd</sup> quarter of fiscal 2007. These increases for the current quarter have offset decreases from the 1<sup>st</sup> quarter so that license revenue for the six-months ended December 31, 2007 remained flat in comparison to the first six months of fiscal 2007.

Support and Service Revenue

Three Months Ended

%

Six Months Ended

%

December 31,

Change

December 31,

Change

20072006



20072006

## Support and service

\$ 145,336

\$ 124,235

17%

\$ 283,698

\$ 239,812

18%

## Percentage of total revenue

76%

74%

77%

75%

|                                   | <u>Qtr over Qtr Change</u> |                   | <u>Year over Year Change</u> |                   |
|-----------------------------------|----------------------------|-------------------|------------------------------|-------------------|
|                                   | <u>\$ Change</u>           | <u>% Increase</u> | <u>\$ Change</u>             | <u>% Increase</u> |
| In-house support & other services | \$ 10,262                  | +19%              | \$ 17,865                    | +17%              |
| EFT support                       | 6,048                      | +24%              | 16,096                       | +34%              |
| Outsourcing services              | 2,815                      | +9%               | 6,273                        | +11%              |
| Implementation services           | 1,976                      | +13%              | 3,652                        | +13%              |
| Total Increase                    |                            |                   |                              |                   |
|                                   |                            |                   | \$ 21,101                    |                   |
|                                   |                            |                   | \$ 43,886                    |                   |

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 (including ATM and debit card transaction processing, online bill payment services, remote deposit capture and Check 21 transaction processing services).

There was strong growth in all support and service revenue components for the second quarter and the first half of fiscal 2008. In-house support and other services increased partially as a result of recent acquisitions. In addition,

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because annual maintenance fees are usually based on supported institutions' asset size, in-house support revenues increase as our customers' assets grow. EFT support experienced the largest percentage growth due to increased customer activity and expansion of our customer base. Outsourcing services also continue to grow as we add new customers and increase volume. Implementation services revenue increased primarily due to growth in merger conversions for existing customers that acquired other financial institutions.

| Hardware Revenue               | Three Months Ended<br>December 31, |             | %<br>Change | Six Months Ended<br>December 31, |             | %<br>Change |
|--------------------------------|------------------------------------|-------------|-------------|----------------------------------|-------------|-------------|
|                                | <u>2007</u>                        | <u>2006</u> |             | <u>2007</u>                      | <u>2006</u> |             |
| Hardware                       | \$ 23,596                          | \$ 21,836   | 8%          | \$ 47,038                        | \$ 41,335   | 14%         |
| Percentage of total<br>revenue | 12%                                | 13%         |             | 13%                              | 13%         |             |

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 increased mainly due to an increase in the number of hardware systems and components delivered for the current quarter and the first half of the current year as compared to the same periods last year. In particular, there has been a increase in revenue from hardware components used in our remote deposit capture product for imaging and exchanging checks. There was also strong growth in revenue related to IBM System i upgrades.

#### BACKLOG

Our backlog increased 7% at December 31, 2007 to \$240,200 (\$61,600 in-house and \$178,600 outsourcing) from \$225,300 (\$66,200 in-house and \$159,100 outsourcing) at December 31, 2006. The current quarter backlog increased 1% from September 30, 2007, where backlog was \$237,600 (\$64,000 in-house and \$173,600 outsourcing).

#### 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

%

Six Months Ended

%

December 31,

---

Change

---

December 31,

---

Change

---

2007

2006

2007

2006

Cost of License

\$ 1,770

\$ 778

128%

\$ 2,540

\$ 1,334

90%

Percentage of total revenue

1%

<1%

1%

<1%

License Gross Profit

\$ 21,524

\$ 20,395

6%

|                             |            |
|-----------------------------|------------|
|                             | \$ 34,276  |
|                             | \$ 35,378  |
|                             | -3%        |
| Gross Profit Margin         |            |
|                             | 92%        |
|                             | 96%        |
|                             | 93%        |
|                             | 96%        |
| Cost of support and service |            |
|                             | \$ 89,284  |
|                             | \$ 77,501  |
|                             | 15%        |
|                             | \$ 177,020 |
|                             | \$ 150,551 |
|                             | 18%        |
| Percentage of total revenue |            |
|                             | 46%        |
|                             | 46%        |
|                             | 48%        |
|                             | 47%        |
| Support and Service         |            |
| Gross Profit                |            |
|                             | \$ 56,052  |
|                             | \$ 46,734  |
|                             | 20%        |
|                             | 28         |

|                             |            |
|-----------------------------|------------|
|                             | \$ 106,678 |
|                             | \$ 89,261  |
|                             | 20%        |
| Gross Profit Margin         |            |
|                             | 39%        |
|                             | 38%        |
|                             | 38%        |
|                             | 37%        |
| Cost of hardware            |            |
|                             | \$ 16,352  |
|                             | \$ 15,977  |
|                             | 2%         |
|                             | \$ 33,650  |
|                             | \$ 29,679  |
|                             | 13%        |
| Percentage of total revenue |            |
|                             | 9%         |
|                             | 10%        |
|                             | 9%         |
|                             | 9%         |
| Hardware Gross Profit       |            |
|                             | \$ 7,244   |
|                             | \$ 5,859   |
|                             | 24%        |

|                             |            |
|-----------------------------|------------|
|                             | \$ 13,388  |
|                             | \$ 11,656  |
|                             | 15%        |
| Gross Profit Margin         |            |
|                             | 31%        |
|                             | 27%        |
|                             | 28%        |
|                             | 28%        |
| TOTAL COST OF SALES         |            |
|                             | \$ 107,406 |
|                             | \$ 94,256  |
|                             | 14%        |
|                             | \$ 213,210 |
|                             | \$ 181,564 |
|                             | 17%        |
| Percentage of total revenue |            |
|                             | 56%        |
|                             | 56%        |
|                             | 58%        |
|                             | 57%        |
| TOTAL GROSS PROFIT          |            |
|                             | \$ 84,820  |
|                             | \$ 72,988  |
|                             | 16%        |
|                             | \$ 154,342 |
|                             | \$ 136,295 |

|                     |     |
|---------------------|-----|
|                     | 13% |
| Gross Profit Margin |     |
|                     | 44% |
|                     | 44% |
|                     | 42% |
|                     | 43% |

Cost of license increased for the current quarter and the first half of fiscal 2008 due to greater third party reseller agreement software vendor costs. Cost of support and service increased for the quarter and year to date in fiscal 2008 due to additional employee headcount and depreciation expense for new facilities and equipment as compared to last year and was commensurate with the increase in support and service revenue. Cost of hardware increased due to an increase in hardware sales during the current year.

Gross margin on license revenue decreased slightly to 92% for the current quarter and 93% for the first half of the fiscal year compared to 96% for both the same periods last year due to an increase in third party software sales, where the gross margins on third party software are lower than on our owned products. The gross profit increase for the second quarter and year to date in support and service is due to consistent revenue growth. Gross margin for support and service was 39% for the current quarter and 38% for the six-month period, due to a continuing shift in sales mix toward services with slightly higher margins, such as our EFT processing services. Hardware gross margin increased from 27% in the second quarter last year to 31% in the second quarter of the current year due to the mix of hardware equipment delivered during the quarter, but remained at 28% for both the first half of fiscal 2008 and for the first six months of last year.

**OPERATING EXPENSES**

Selling and Marketing

Three Months Ended

%

Six Months Ended

%

December 31,

---

Change

---

December 31,

---

Change

---

2007

2006

2007

2006

Selling and marketing

\$ 14,098

\$ 12,973

9%

\$ 28,050

\$ 24,939

12%

Percentage of total revenue

7%

8%

8%

8%

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 six months ended December 31, 2007, selling and marketing expenses increased due to additional headcount plus the related employee costs. Selling and marketing expense remained even as a percentage of revenue year to date compared to the last year at 8%.

Research and Development

Three Months Ended

%

Six Months Ended

%

December 31,



---

Change

---

December 31,

---

Change

---

2007

2006

2007

2006

Research and development

\$ 11,404

\$ 8,989

27%

\$ 21,363

\$ 17,505

22%

Percentage of total revenue

6%

5%

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 increased primarily due to employee related costs from increased headcount for ongoing development of new products and enhancements to existing products. Research and development expenses

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increased for the first half of fiscal 2008 by 22%; however they remained at 6% of total revenue for both fiscal years to date.

General and Administrative

Three Months Ended

%

Six Months Ended

%

December 31,

---

Change

---

December 31,

---

Change

---

2007

2006

2007

2006

General and administrative

\$ 13,463

\$ 11,407

18%

\$ 23,271

\$ 21,313

9%

Percentage of total revenue

7%

7%

6%

7%

General and administrative costs include all expenses related to finance, legal, human resources, employee benefits, plus all administrative costs. General and administrative expenses increased for the second quarter and for the first half of fiscal 2008, primarily due to growth in labor-related costs and travel-related expenses (such as fuel costs) compared to the same periods last year. General and administrative expenses have remained fairly level as a percentage of revenue (6-7%) for the quarter and year-to-date compared to the same periods a year ago.

#### INTEREST INCOME (EXPENSE)

- Net interest income for the three months ended December 31, 2007 reflects an increase of \$128 when compared to the same period last year. Interest income decreased \$67, while interest expense decreased \$195. Net interest income for the current six month period reflects an increase of \$54, with interest income decreasing \$274 and interest expense decreasing \$328. For both periods, the changes in interest income are due to fluctuating cash and cash equivalent balances while the decreased interest expense is primarily due to an increase in interest capitalization related to on-going capital projects.

#### PROVISION FOR INCOME TAXES

- The provision for income taxes was \$16,939 and \$30,469 for the three and six-month periods ended December 31, 2007 compared with \$11,938 and \$24,785 for the same periods last year. For the current fiscal year, the rate of income taxes is currently estimated at 36.6% of income before income taxes compared to 33.5% as reported for the same periods in fiscal 2007. During the second quarter of fiscal 2007, the Research and Experimentation Credit was renewed retroactive to January 1, 2006. Passage of this legislation had a significant tax benefit (approximately \$3,000) in the second quarter of fiscal 2007 since research credits generated from January 1, 2006 through December 31, 2006 were recognized all in that quarter.

#### NET INCOME

- Net income increased 5% for the three months ended December 31, 2007. Net income for the second quarter of fiscal 2008 was \$29,151 or \$0.32 per diluted share compared to \$27,788 or \$0.30 per diluted share in the same period last year. Net income also increased for the six-month period ended December 31, 2007 to \$52,690 or \$0.58 per diluted share compared to \$49,200 or \$0.53 per diluted share for the same six month period last year.

#### 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

Percent

Six Months Ended

Percent

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December 31,

Change

December 31,

Change

2007

2006

2007

2006

Revenue

\$ 160,030

\$ 139,876

+14%

\$ 304,526

\$ 264,586

+15%

Gross Profit

\$ 70,334

\$ 62,300

+13%

\$ 127,395

\$ 116,473

+9%

Gross Profit Margin

44%

45%

42%

44%

Revenue growth in bank systems and services is primarily due to continued growth in support and service revenue. In particular, revenue for in-house maintenance increased due to maintenance contracts sold for recently acquired software products. In addition, EFT support has increased 23% or \$5,071 for the current quarter and 34% or \$14,106 year-to-date compared to last year. ATM and debit card transaction processing revenue continues to contribute strong growth; however, some of our newer product offerings, such as Check 21 transaction processing, have experienced the largest percentage growth, period-over-period, for both the current quarter and year-to-date. Bank segment gross profit increased from the last year commensurate with the increase in revenues. Gross profit margins for the quarter and year-to-date have decreased from the prior year correspondent to a decrease in license revenue, which carries a higher profit margin than the other revenue components.

Credit Union Systems and Services

Three Months Ended

Percent

Six Months Ended

Percent

December 31,

---

Change

---

December 31,

---

Change

---

2007

2006

2007

2006

Revenue

\$ 32,196

\$ 27,368

|                     |           |
|---------------------|-----------|
|                     | +18%      |
|                     | \$ 63,026 |
|                     | \$ 53,273 |
|                     | +18%      |
| Gross Profit        |           |
|                     | \$ 14,486 |
|                     | \$ 10,688 |
|                     | +36%      |
|                     | \$ 26,947 |
|                     | \$ 19,822 |
|                     | +36%      |
| Gross Profit Margin |           |
|                     | 45%       |
|                     | 39%       |
|                     | 43%       |
|                     | 37%       |

Revenue in the credit union system and services segment experienced growth in all revenue components for both the quarter and year-to-date. In particular, the credit union segment experienced a rise in license revenue, representing an increase in both the number and size of core product license agreements in comparison to the same periods a year ago. For both the quarter and year-to-date, credit union gross profit and gross profit margins increased, mostly due to the increase in license revenue, which carries higher margins than other revenue components.

## FINANCIAL CONDITION

### Liquidity

The Company's cash and cash equivalents decreased to \$28,136 at December 31, 2007, from \$88,617 million at June 30, 2007 and increased from \$27,625 at December 31, 2006. The decrease in the cash balance from June 30, 2007 is primarily due to the acquisition of Gladiator and AudioTel, to the repayment of short term debt obligations, to the purchase of 900 additional shares for the treasury, and to the payment of dividends.

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

Six months ended  
December 31,

---

2007
2006

|   |  |           |
|---|--|-----------|
| Net income                                |  | \$ 52,690 |
|   |  | \$ 49,200 |
| Non-cash expenses                         |  | 31,665    |
|   |  | 29,451    |
| Change in receivables                     |  | 82,959    |
|   |  | 67,131    |
| Change in deferred revenue                |  | (70,326)  |
|   |  | (58,220)  |
| Change in other assets and liabilities    |  | (13,567)  |
|   |  | (1,484)   |
| <hr/>                                     |  |           |
| Net cash provided by operating activities |  | \$ 83,421 |
|   |  | \$ 86,078 |

The decrease in cash provided by operating activities is primarily attributable to cash used to reduce accounts payable and accrued liabilities, including accrued income taxes. During the six months ended December 31, 2007, the net balance in accounts payable and accrued liabilities was reduced by \$17,812, compared to a net reduction in those balances of \$5,252 during the six months ended December 31, 2006.

Net cash used in investing activities for the current year was \$79,732 and included payment for acquisition activity, including the acquisition of both Gladiator and AudioTel, of \$49,026, capital expenditures of \$21,071, and capitalized software development of \$11,651. Cash used for investing activities in the first half of fiscal 2008 was offset by

\$2,016 net proceeds from the sale of property and equipment, from sale of investments, and other. In the first half of fiscal 2007, net cash used in investing activities of \$60,462 consisted mainly of \$35,980 payment for acquisitions, \$15,496 in capital expenditures and \$10,094 for capitalized software development. Cash used for investing activities in the first half of fiscal 2007 was offset by \$1,108 net proceeds from investments.

Net cash used in financing activities for the current year of \$64,170 included a net repayment of the revolving bank credit facility of \$44,920, payment of dividends of \$11,617 and the purchase of treasury stock of \$23,313. Cash used was offset by proceeds of \$15,680 from the exercise of stock options, sale of common stock and the excess tax benefits from stock-based compensation. For the first half of fiscal 2007, cash used in financing activities was \$72,130 and consisted of \$9,986 for dividends paid, a net repayment of the revolving bank credit facility of \$25,089, and \$48,030 for the purchase of treasury stock. Cash used in the first half of fiscal 2007 was offset by \$10,975 proceeds from the proceeds from the exercise of stock options, sale of common stock and the excess tax benefits from stock-based compensation.

US financial markets and many of the largest US financial institutions have recently been shaken by negative developments in the home mortgage industry and the mortgage markets, and particularly the markets for subprime mortgage-backed securities. While we believe it is too early to predict what effect, if any, these developments may have, we have not experienced any significant issues with our current collection efforts, and we believe that any future impact to our liquidity would be minimized by 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 \$21,071 and \$15,496 for the six-month periods ended December 31, 2007 and 2006, respectively, were made for facilities and additional equipment. These additions were primarily funded from cash generated by operations. Total consolidated capital expenditures for the Company are not expected to exceed \$50,000 for fiscal year 2008.

The Company renewed a bank credit line on March 7, 2007 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (7.25%

at December 31, 2007). The credit line expires March 7, 2008 and is secured by \$1,000 of investments. At December 31, 2007, no amount was outstanding.

The Company obtained an unsecured bank credit line on April 28, 2006 which provides for funding of up to \$5,000 and bears interest at the bank's prime rate less 1% (6.25% at December 31, 2007). The credit line matures on April 30, 2008. At December 31, 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, 2007, the revolving bank credit facility balance was \$70,000. At December 31, 2007, the revolving bank credit facility balance was \$25,000.

The company has entered into various capital lease obligations totaling \$1,168 for the use of certain computer equipment. Those amounts have been included in property and equipment and the related depreciation is included in total depreciation expense. At December 31, 2007, \$351 was outstanding, of which \$218 is 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, 2007, there were 7,101 shares in treasury stock and the Company had the remaining authority to repurchase up to 2,890 shares. During the six months ended December 31, 2007, the Company repurchased 900 treasury shares for \$23,314. The total cost of treasury shares at December 31, 2007 is \$173,498. At December 31, 2007, there were 8,001 shares in treasury stock and the Company had the authority to repurchase up to 1,990 additional shares.

Subsequent to December 31, 2007, the Company's Board of Directors declared a cash dividend of \$.075 per share on its common stock payable on March 6, 2008, to stockholders of record on February 19, 2008. Current funds from operations are adequate for this purpose. The Board has indicated that it plans to continue paying dividends as long as the Company's financial condition continues to be favorable.

#### 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, 2007.

Our accounting policy for income taxes was modified during the first quarter of fiscal 2008 due to the adoption of FIN 48. FIN 48 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position. Changes in judgment as to recognition or measurement of tax positions can materially affect the estimate of the effective tax rate and consequently, affect our operating results.

#### 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, 2007. 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

The Company's results of operations and its financial position continue to be strong with increased earnings, increased gross profit, for the three and six months ended December 31, 2007. This reflects the continuing attitude of cooperation and commitment by each employee, management's ongoing cost control efforts and our commitment to deliver top quality products and services to the markets we serve.

#### 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

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 operations of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation as of the end of the period covered by this report, the CEO and CFO concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings. There was no change in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. There have not been any significant changes in our internal control over financial reporting or in other factors that could significantly affect these controls subsequent to the date of evaluation.

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 December 31, 2007:

Period

Total  
Number of  
Shares  
Purchased

Average  
Price of  
Share

Total Number of  
Shares Purchased  
as Part of Publicly  
Announced Plans

Maximum Number

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of Shares that May  
Yet Be Purchased  
Under the Plans <sup>(1)</sup>

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October 1-31, 2007

71,600  
\$ 25.95  
71,600  
2,618,049

November 1-30, 2007

348,261  
\$ 26.26  
348,261  
2,269,788

December 1-31, 2007

280,000  
\$ 25.46  
280,000  
1,989,788

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Total

699,861  
\$ 25.91  
699,861

(1)

Purchases made under the stock repurchase authorization approved by the Company's Board of Directors on October 4, 2002 with respect to 3.0 million shares, which was increased by 2.0 million shares on April 29, 2005. On August 25, 2006, the Company's Board of Directors approved a 5.0 million share increase 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 February 8, 2008.     |
| 31.2 | Certification of the Chief Financial Officer dated February 8, 2008.     |
| 32.1 | Written Statement of the Chief Executive Officer dated February 8, 2008. |
| 32.2 | Written Statement of the Chief Financial Officer dated February 8, 2008. |
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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: February 8, 2008

/s/ John F. Prim  
John F. Prim  
Chief Executive Officer

Date: February 8, 2008

/s/ Kevin D. Williams  
Kevin D. Williams  
Chief Financial Officer and Treasurer