ENGLOBAL CORP
Form 10-K/A
April 25, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

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

For the fiscal year ended December 29, 2018

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 No. **001-14217**

ENGlobal Corporation

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**88-0322261** (I.R.S Employer Identification No.)
654 North Sam Houston Parkway East, Suite 400 (Address of principal executive offices)	**77060-5914** (Zip code)

Registrant's telephone number, including area code: **(281) 878-1000**

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	**NASDAQ**

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

None

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

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

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 shortened 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

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

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [X]	Smaller reporting company [X]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on June 29, 2018 was $14,721,610 (based upon the closing price for shares of common stock as reported by the NASDAQ on June 29, 2018).

The number of shares outstanding of the registrant's $0.001 par value common stock on March 29, 2019 is as follows: 27,409,907 shares

Documents incorporated by reference: None.

EXPLANATORY NOTE

We are filing this Amendment No. 1 to Annual Report on Form 10-K/A (this “Amended Form 10-K”) to amend our Annual Report on Form 10-K for the fiscal year ended December 29, 2018, as originally filed with the Securities and Exchange Commission on March 28, 2019 (the “Original Form 10-K”), to include the information required by Items 10 through 14 of Part III of Form 10-K. This information was previously omitted from the Original Form 10-K in reliance on General Instruction G(3) to Form 10-K, which permits the information in Part III to be incorporated in the Form 10-K by reference from our definitive proxy statement if such statement is filed no later than 120 days after our fiscal year-end. We are filing this Amended Form 10-K to include Part III information in our Form 10-K because we will not file a definitive proxy statement containing such information within 120 days after the end of the fiscal year covered by the Original Form 10-K. The reference on the cover of the Original Form 10-K to the incorporation by reference to portions of our definitive proxy statement into Part III of the Original Form 10-K is hereby deleted.

In accordance with Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, Part III, Items 10 through 14 of Part III of the Original Form 10-K, are hereby amended and restated in their entirety, and Part IV, Item 15 of the Original Form 10-K is hereby amended and restated in its entirety. This Amended Form 10-K does not amend or otherwise update any other information in the Original Form 10-K. Accordingly, this Amended Form 10-K should be read in conjunction with the Original Form 10-K and with our subsequent filings with the SEC. All capitalized terms used but not defined herein shall have the meanings ascribed to them in the Original Form 10-K.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The names of our directors and executive officers and their ages, positions, and biographies as of December 29, 2018, are set forth below. Our executive officers are appointed by, and serve at the discretion of, our Board of Directors. There are no family relationships among any of our directors and executive officers. The Board of Directors did not select any current director or executive officer pursuant to any arrangement or understanding between a current director and any other person.

Name of Nominee: *William A. Coskey, P.E.*
Position: *Chairman of the Board, President and Chief Executive Officer*
Director Since: *1985*
Age: *66*

Present positions and offices with the Company, principal occupations and other directorships during the past five years:

Mr. Coskey founded ENGlobal in 1985 and has served in various positions, including service as Chairman of the Board since June 2005 and as President and Chief Executive Officer since August 2012. From April 2007 until May 2010, he served as Chief Executive Officer. Prior to that, he served as Chairman of the Board, Chief Executive Officer and President from 1985 until 2001, Chief Operating Officer from 2001 to 2003, and President from 2001 to June 2005. Mr. Coskey, an honors graduate, received a Bachelor of Science in Electrical Engineering from Texas A&M University in 1975 and is a Registered Professional Engineer. He served on the Texas A&M University Electrical Engineering Department Advisory Council from 1999 to 2014, and from 2006 until 2014, he served as Chairman of the Council. Mr. Coskey received the 2014 Outstanding Alumni Honor Award from the Texas A&M University College of Engineering. In 2014, Mr. Coskey was also appointed to the Texas A&M College of Engineering Advisory Council.

Qualifications for Consideration:

The Board selected Mr. Coskey to serve as a director because it believes that, as the founder of ENGlobal, he provides a unique perspective to the Board. He was responsible for ENGlobal's initial public offering in 1994, listing on the American Stock Exchange in 1998, and listing on the NASDAQ Stock Market in 2007. In June 2009, he was awarded the Ernst & Young Entrepreneur of The Year® in the Energy Services category for the Houston & Gulf Coast Area. The Board believes Mr. Coskey's industry knowledge and business experiences give him invaluable insights into the Company's challenges, opportunities and operations.

Name of Nominee:	*David W. Gent, P.E.*
Position:	*Lead Independent Director*
Director Since:	*1994*
Age:	*66*

Present positions and offices with the Company, principal occupations and other directorships during the past five years:

Mr. Gent has served as a director of ENGlobal since June 1994, is Chairman of the Nominating & Corporate Governance Committee and is a member of the Compensation Committee. Mr. Gent has served as the Company's Lead Independent Director since 2002. Since 2011, Mr. Gent has served as the Chairman of SofTest Designs Corporation, an automation and test systems company that he founded in 1980. From 1991 through 2011, Mr. Gent held various positions for Bray International, Inc., an industrial flow control manufacturer. From 2005 to 2011, Mr. Gent served as Executive Vice President of Bray International and was responsible for overseeing worldwide engineering, information services, and training. Mr. Gent, an honors graduate, received a Bachelor of Science in Electrical Engineering from Texas A&M University in 1975 and a Master of Business Administration from Houston Baptist University in 1984. He is a Registered Professional Engineer. Mr. Gent serves on the Texas A&M University Electrical and Computer Engineering Department Advisory Council and he holds several patents in the field of industrial flow controls.

Qualifications for Consideration:

The Board selected Mr. Gent to serve as a director, and as Lead Independent Director, because it believes he possesses valuable engineering expertise, including extensive experience managing multinational engineering, research and development, information technology, and manufacturing operations, including domestic and international operations obtained through start-ups and acquisition. He provides the perspective of a leader with experience in global operations and strategy who has faced and effectively dealt with economic and governance issues.

Name of Nominee:	*Randall B. Hale*
Position:	*Independent Director*
Director Since:	*2001*
Age:	*56*

Present positions and offices with the Company, principal occupations and other directorships during the past five years:

Mr. Hale has served as a director of ENGlobal since December 2001, and is Chairman of the Audit Committee and a member of the Nominating & Corporate Governance Committee. Mr. Hale is the founder of Rock Hill Capital Group, LLC, an investment management firm, and serves as its Managing Director. Mr. Hale is responsible for managing all aspects of the investment activities of the firm, including capital raising, deal sourcing and investment management of portfolio companies. Prior to founding Rock Hill, he served as an Executive Vice President and a Director of Equus Capital Management Corporation, investment advisor to several private equity funds, from November 1992 to November 2002. Prior to joining Equus, Mr. Hale served in an audit, consulting and advisory capacity with a public accounting firm in Houston, Texas. In September 2004, he co-founded ConGlobal Industries, Inc., a provider of intermodal services to the shipping industry, and served as its Executive Chairman until its sale in December 2013. ConGlobal was formed in September 2004 to facilitate the merger of Container-Care International, Inc., an intermodal services company, with Global Intermodal Systems, Inc. Prior to the merger, Mr. Hale served as the President and Chief Executive Officer of Container-Care from February 2003 to September 2004. Mr. Hale serves on several private company boards. He is the past President and Director of the Houston Private Equity Association and is an active member of the Association for Corporate Growth. Mr. Hale received a Bachelor in Business Administration from Texas A&M University in 1985 and is a certified public accountant.

Qualifications for Consideration:

The Board selected Mr. Hale to serve as a director because it believes he possesses valuable financial expertise, including extensive experience with capital markets transactions and investments in both public and private companies. Mr. Hale's CPA background assists ENGlobal with financial and accounting issues and is invaluable to our Board's discussions of the Company's capital and liquidity needs. ENGlobal also benefits from Mr. Hale's entrepreneurial experience and his service as a director and chairman on several private company boards.

Name of Nominee:	*David C. Roussel*
Position:	*Independent Director*
Director Since:	*2001*
Age:	*70*

Present positions and offices with the Company, principal occupations and other directorships during the past five years:

Mr. Roussel has served as a Director of the Company since December 2001, and is Chairman of the Compensation Committee and a member of the Audit and Nominating & Corporate Governance Committees. Mr. Roussel, retired, most recently served as President of Petrolog Automation, Inc., an oil field service company providing well site automation and data collection, from August 2016 until October 2017. He previously worked for Jefferies Energy Investment Banking, a leading mergers and acquisitions advisor in the global oil and gas industry, or its predecessor companies from 2003 until 2014 and served as a Senior Vice President responsible for managing acquisition and divestiture projects on behalf of clients. Jefferies Energy Investment Banking is a division of Jefferies & Company, Inc., a global investment bank and institutional securities firm. Mr. Roussel received a Bachelor of Science degree in Mechanical Engineering from Iowa State University in 1971 and completed the Harvard Advanced Management Program in 1992.

Qualifications for Consideration:

The Board selected Mr. Roussel to serve as a director because it believes he possesses valuable engineering experience, including a sound background in the energy industry, business operations and business development practices. Mr. Roussel's experience in senior and general management roles helps the Board address the challenges the Company faces with respect to development of its growth strategy, mergers and acquisitions, and joint venture formation. ENGlobal also benefits from Mr. Roussel's ability to address diverse matters that come before the Board.

Name of Nominee:	*Kevin M. Palma*
Position:	*Independent Director*
Director Since:	*2016*
Age:	*40*

Present positions and offices with the Company, principal occupations and other directorships during the past five years:

Mr. Palma has served as a Director of the Company since June 2016, and is a member of the Audit and Compensation Committees. Mr. Palma originally served as the Chief Financial Officer of B-29 Investments, LP, an energy private equity firm, since 2006 and has since been promoted to Chief Operating Officer in December 2018, and as the Chief Financial Officer of B-29 Family Holdings, LLC, a family office, since its inception in 2014 until December 2018. In his role within the private equity fund space, Mr. Palma focuses on investment strategy, investment execution, and portfolio company management for both privately-held and publicly-traded companies. Mr. Palma currently serves as director of Silver Creek Oil and Gas, LLC, an exploration and production company that operates wells in the Arkoma and Texoma basins, and Klear Bit Technologies, LLC, a privately-held drilling bit designer and manufacturer. He has previously served as a director of TEC Holdings, LLC, which was recently rebranded as AXIS Energy Services, LLC and is a privately-held well servicing and pressure control company, and Crest Pumping Technologies, LLC, a privately-held oil and gas cementing company, until its merger into Nine Energy Service, Inc. in June 2014. Furthermore, Mr. Palma has served in interim executive roles within B-29's portfolio companies, including the Chief Financial Officer of Select Energy Services, LLC and Crest Pumping Technologies, LLC during their respective rapid growth phases of entering new geographic markets and expanding service line offerings. Prior to his roles at B-29, Mr. Palma was a member of the energy investment banking team at Raymond James & Associates, focusing on capital market raises and merger and acquisition activity. Mr. Palma is licensed as a Certified Public Accountant in the State of Texas, and holds a Master of Business Administration from the Harvard Business School in addition to a Bachelor of Business Administration and a Master of Public Administration from the University of Texas.

Qualifications for Consideration:

The Board selected Mr. Palma to serve as a director because his experience in identifying strategic growth trends in the energy industry, evaluating and completing numerous acquisitions, and exhibiting an extensive knowledge of financial markets make him well qualified to serve on ENGlobal's board of directors.

Executive Officer:	*Mark A. Hess*
Position:	*Chief Financial Officer and Treasurer*
Age:	*60*

Present positions and offices with the Company, principal occupations during the past five years:

Mr. Hess has served as Chief Financial Officer of ENGlobal Corporation since September 2012 and served as interim Chief Financial Officer from June 2012 to September 2012. Mr. Hess previously served as the Company's Corporate Controller from July 2011 until June 2012. Prior to joining ENGlobal, Mr. Hess served as Vice President and Chief Accounting Officer of Geokinetics, Inc., a seismic data service company, from April 2008 to April 2010. From November 2004 to April 2008, he served as Director of Finance for CGGVeritas, a seismic data service company. Mr. Hess is a CPA, holds a Bachelor of Business Administration in Accounting from the University of Houston and is an active member of Financial Executives International.

Executive Officer:	*R. Bruce Williams*
Position:	*Senior Vice President*
Age:	*66*

Present positions and offices with the Company, principal occupations during the past five years:

Mr. Williams is currently serving as a Senior Vice President for ENGlobal's Engineering and Construction segment. Mr. Williams served as the Chief Operating Officer from December 2013 through March 2017 and the President of ENGlobal Government Services, Inc. from September 2012 through March 2017. He served as Senior Vice President, Midwest/Southwest Operations of ENGlobal's Engineering and Construction segment from September 2012 to September 2013. He initially joined ENGlobal in 2004, and from November 2010 until September 2012, he served in various roles at ENGlobal, including General Manager of the Tulsa Office, Vice President of Midwest and Southwest Operations, Senior Project Manager of Engineering/ Projects, and acting General Manager of ENGlobal Government Services, Inc. Prior to joining ENGlobal, Mr. Williams served as Vice President – Engineering for U.S. Transcarbon LLC, a petroleum coke gasification project developer, from April 2008 until October 2010. In total, he has over 35 years of domestic and international experience in engineering and project management, including several project management positions of increasing responsibility in the U.S., Middle East, Papua New Guinea, Asia, Mexico and Brazil. Mr. Williams has an undergraduate degree in Chemistry from the University of Northern Iowa, with post graduate studies in Environmental Management from the University of Houston and MBA studies at Incarnate Word University.

Executive Officer: Michael Patton
Position: Senior Vice President
Age: 66

Present positions and offices with the Company, principal occupations during the past five years:

Mr. Patton rejoined ENGlobal Corporation as Senior Vice President in April 2016. Mr. Patton was also at ENGlobal from 1998 through 2010, when he held many positions, including Senior Vice President of Business Development, President of ENGlobal Government Services, Inc., Senior Vice President and General Manager of ENGlobal's Tulsa Office. In 2014 and 2015, Mr. Patton served as Senior Vice President and General Manager of the Gulf Coast Regional offices for Saulsberry Industries and as their Senior Vice President of Strategic Planning. Prior to joining Saulsberry Industries, Mr. Patton served as Senior Vice President and General Manager of the Oil, Gas, and Chemical Division of CDI from 2011 through 2013. Mr. Patton graduated from the University of Oklahoma in 1975 with a Bachelor of Science in Electrical Engineering. Mr. Patton has been a Registered Professional Engineer since 1980. He has held several positions within technical societies, including most recently the Rice Global Forum.

Executive Officer: John Kratzert
Position: Senior Vice President
Age: 56

Present positions and offices with the Company, principal occupations during the past five years:

John Kratzert currently serves as Senior Vice President, and in this role is responsible for all of the Company's government related design, integration, fabrication and field support operations. Mr. Kratzert is also responsible for managing project execution and business development in our Denver office. Mr. Kratzert has served as Senior Vice President of ENGlobal Government Services and Senior Vice President of Automation. Mr. Kratzert joined ENGlobal as a Program Manager and then General Manager of ENGlobal Government Services in November of 2012. Prior to joining ENGlobal, Mr. Kratzert served as the Technical Director for Physical and Electronic Security Programs (BAE Systems), Principle Systems Engineer (SAIC) and Division Manager (MANDEX). Mr. Kratzert is a retired Marine Corps Officer and has over 33 years of experience leading domestic and international organizations. Mr. Kratzert holds a Bachelor of Science degree in Biology from The Citadel, Military College of South Carolina and a Master of Science degree in Management from Troy University.

Section 16(a) Beneficial Ownership Reporting Compliance

Under U.S. securities laws, directors, executive officers and persons holding more than 10% of our common stock must report their initial ownership of our common stock and any changes in that ownership to the Securities and Exchange Commission. The SEC has designated specific due dates for such reports and ENGlobal must identify in this Amended Form 10-K those persons who did not file such reports when due.

Based solely upon a review of Forms 3 and 4 and any amendments thereto furnished to ENGlobal during our fiscal year ended December 29, 2018, and Forms 5 and any amendments thereto furnished to ENGlobal with respect to the same fiscal year, we believe that our directors, officers, and greater than 10% beneficial owners timely filed all required Section 16 reports, except that Mr. Palma was late filing a Form 3 in connection with being elected a director in June 2016.

Audit Committee

During the fiscal year ended December 29, 2018, the Audit Committee consisted of Randall B. Hale (Chairperson), Kevin M. Palma, and David C. Roussel. The duties and responsibilities of the Audit Committee are to oversee:

- the quality and integrity of our financial statements;
- our compliance with legal and regulatory requirements; and
- our independent auditors' qualifications, independence and performance.

In addition, the Audit Committee annually reviews our disclosures regarding deficiencies, if any, in the design or operation of our internal controls.

The Board has determined that Mr. Hale is qualified as an audit committee financial expert under the SEC's rules and regulations. In addition, the Board has determined that each member of the Audit Committee has the requisite accounting and related financial management expertise under NASDAQ rules.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all of the Company's directors, officers and employees in accordance with NASDAQ rules. The purpose and role of this code is to focus our officers, directors, and employees on areas of ethical risk, provide guidance to help them recognize and deal with ethical issues, provide mechanisms to report unethical or unlawful conduct, and help enhance and formalize our culture of integrity, honesty and accountability. We have posted this Code of Business Conduct and Ethics on the "Investor Relations" section of our website at www.englobal.com.

The Company also has a Code of Ethics applicable to the Chief Executive Officer and certain senior financial officers of the Company that complies with Item 406 of Regulation S-K of the Exchange Act and with applicable NASDAQ rules. We have posted this Code of Ethics on the "Investor Relations" section of our website at www.englobal.com.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information regarding compensation earned during the last two fiscal years by our Chief Executive Officer, Chief Financial Officer, and Senior Vice President (the "named executive officers").

Name and Principal Position	Year	Salary ($)	Bonus ($)[4]	Stock Awards[1] ($)	Non-Equity Incentive Plan Compensation[2]	All Other Compensation[3] ($)	Total ($)
Mr. Coskey ~	2018	49,442	-	-	-	-	49,422
President & Chief Executive Officer	2017	49,442	-	-	-	-	49,422
Mr. Hess ~	2018	216,299	-	-	-	4,159	220,458
Chief Financial Officer & Treasurer	2017	216,299	21,535	83,000	-	4,003	324,837
Mr. Williams ~	2018	236,912	-	-	-	3,098	240,010
Senior Vice President	2017	236,912	16,211	71,700	-	3,090	327,913

(1) This column shows the grant date fair value of equity awards computed in accordance with stock-based compensation accounting rules (FASB ASC Topic 718). Values for awards subject to performance conditions are computed based upon the probable outcome of the performance condition as of the grant date. For a description of certain assumptions made in the valuation of stock awards, see Note 8 to the Company's audited consolidated financial statements, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018, as filed with the SEC on March 28, 2019.

(2) The Non-Equity Incentive Plan includes amounts awarded pursuant to the Company's Short Term Incentive Plan. Metrics are set annually and are generally contingent on the Company reaching certain levels of Net Operating Income.

(3) All Other Compensation includes 401(k) matching contributions. Does not include perquisites or personal benefits if the aggregate amount is less than $10,000. Does not include medical, dental, life, short and long term disability or paid time off benefits which were available to all employees.

(4) Bonus includes a discretionary bonus to cover payroll taxes on the issuances of shares of restricted stock.

6

Outstanding Equity Awards at Fiscal Year End 2018

The following table sets forth information as of December 29, 2018 regarding outstanding equity awards held by the named executive officers. On December 28, 2018, the closing price on NASDAQ for the Company’s common stock was $0.68 per share.

	Restricted Stock Awards			
Name	Number of Shares That Have Not Vested	Market Value of Shares of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested	Equity Incentive Plan Awards: Market Value of Unearned Shares That Have Not Vested
Mr. Coskey		—	—	—
Mr. Hess[(1)]	60,375	$41,055	—	—
Mr. Williams[(2)]	46,125	$31,365	—	—

(1) Includes 10,125 shares that were granted under the 2009 Equity Incentive Plan (the “Plan”) on February 9, 2015, which vested on February 9, 2019. Includes 20,250 shares that were granted under the Plan on March 1, 2016, which vested 10,125 shares on March 1, 2019 and vest 10,125 shares on March 1, 2020. Includes 30,000 shares that were granted under the Plan on August 10, 2017, which vest 10,000 shares on each of August 10, 2019, August 10, 2020 and August 10, 2021.

(2) Includes 10,125 shares that were granted under the Plan on February 9, 2015, which vested on February 9, 2019. Includes 13,500 shares that were granted under the Plan on March 1, 2016, which vested 6,750 shares on March 1, 2019, and vest 6,750 shares on March 1, 2020. Includes 22,500 shares that were granted under the Plan on August 10, 2017, which vest 7,500 shares on each of August 10, 2019, August 10, 2020 and August 10, 2021.

Employment Agreements; Termination and Change-in-Control Arrangements

As of December 29, 2018, Messrs. Coskey and Hess were each a party to a written employment agreement (the “Employment Agreements”) with ENGlobal. The Employment Agreements provide for an annual base salary, subject to discretionary increases by the Board, and other compensation in the form of cash bonuses, incentive compensation, stock options, stock appreciation rights, and restricted stock awards. Additionally, the executives receive health, life, and other insurance benefits in accordance with the terms of the Company's benefit plans, and the Company provides management level support services and reimbursement for specified business expenses.

The Employment Agreements provide for severance payments and benefits in the case of termination of employment. If employment ends because of death, the Company will pay any accrued but unpaid salary, additional compensation, and other benefits earned up to that date. In the case of a physical or mental disability that prevents the executive from performing his services under the Employment Agreement for a period of six months in the case of Mr. Coskey, and three months, in the case of Mr. Hess, the Company may terminate the executive's employment. If the Company terminates an executive's employment in such cases of disability, the Employment Agreements provide that the Company will continue to pay the executive his full salary and benefits for the six months following the date of termination (the "Initial Severance Period"). At the Company's option, severance payments consisting of 50% of the monthly amount of the base salary for Mr. Coskey, and in the case of Mr. Hess, 100% of the monthly amount of his base salary, and full benefits may be extended for an additional six-month period following the Initial Severance Period.

If the Company terminates an executive's employment for "cause," as defined in the Employment Agreements, the Company will pay any accrued but unpaid salary, additional compensation, and other benefits earned up to the effective date of termination. If the Company terminates an executive's employment without "cause," the Employment Agreement provides that the Company will continue to pay the executive his full salary and benefits for the Initial Severance Period. At the Company's option, severance payments consisting of 50% of the monthly amount of the base salary for Mr. Coskey, and in the case of Mr. Hess, 100% of the monthly amount of his base salary, and full benefits may be extended for an additional six-month period following the Initial Severance Period.

The Employment Agreements include a covenant not to compete following termination of employment for a period of up to one year, as well as confidentiality provisions that are customary in nature and scope, for such agreements.

The terms of the Employment Agreements were set through the course of arms-length negotiations with the executives. As part of these negotiations, the Compensation Committee analyzed the terms of the same or similar arrangements for comparable executives employed by some of the companies in our peer group. The Compensation Committee used this approach in setting the amounts payable and the triggering events under the Employment Agreements. The Employment Agreements' termination of employment provisions were entered into in order to address competitive concerns by providing the executives with a fixed amount of compensation that would offset the potential risk of foregoing other opportunities. At the time of entering into the Employment Agreements, the Compensation Committee considered ENGlobal's aggregate potential obligations in the context of retaining the executives and their expected compensation.

Executive Perquisites

Our use of perquisites as a component of compensation is limited and largely based on historical practices and policies of our Company. These perquisites and other benefits are provided to assure competitiveness and provide an additional retention incentive for these executives. Our Compensation Committee endeavors to adhere to a high level of propriety in managing executive benefits and perquisites. We do not own a plane and do not provide any personal aircraft use for executives.

Other Compensation

From time to time, we make available to employees and executives certain other fringe benefits. We may provide club memberships, tickets to sporting or cultural events, tickets to community events, etc. To the extent that such items are taxable to the individual, they are considered to be part of the individual's compensation package.

Compensation of Directors

The principal objectives of our director compensation programs are to: (i) compensate for time spent on the Company's behalf, and (ii) align the compensation programs with long-term value to the Company's shareholders. We attempt to accomplish these objectives in an economical manner through a combination of reasonable director retainer fees and equity incentive grants to the directors.

Retainer Fees

Historically, our non-employee directors received a cash retainer as compensation for their service to the Company, and our Chairman of the Audit Committee also received an additional cash retainer as compensation for such service. Our non-employee directors are also eligible for reimbursement of travel and other miscellaneous expenses associated with attendance at Board and Committee meetings. However, due to the losses that the Company incurred during 2016 and 2017, the Compensation Committee recommended and the Board approved that cash retainer fees be suspended effective October 1, 2017 and reviewed for reinstatement on a quarterly basis. At this time, cash retainer fees have not been reinstated.

Restricted Stock Grants

Under the Plan, non-employee directors are eligible to receive equity grants. Our non-employee directors typically receive the equity grants in June concurrent with the annual shareholder's meeting. On June 15, 2017, in recognition of the services provided by its Board for the 2017-2018 service term, our non-employee directors, Messrs. Gent, Hale and Roussel, each received 42,735 restricted shares of the Company's common stock, valued at $50,000 based on the fair market value of the shares on the date of grant, or $1.17 per share. One quarter of the shares vested on September 30, 2017. Due to the losses that the Company incurred in 2016 and 2017, the Compensation Committee recommended and the Board approved the suspension of the vesting provisions of these restricted shares to be extended indefinitely; therefore, the remaining future vestings are not determined at this time and will be revisited on a quarterly basis for reinstatement.

The Company did not issue restricted shares to its non-employee directors in June 2018. The equity grant component of director compensation is reviewed for reinstatement on a quarterly basis. Any unvested shares will be forfeited as of the date the non-employee director ceases to qualify as an independent director.

Mr. Palma does not receive any compensation from the Company for his service as a director, but is eligible for reimbursement of travel and other miscellaneous expenses associated with attendance at Board and Committee meetings.

57,797

INTEREST INCOME (EXPENSE)

Interest income
187

129

Interest expense
(1,341
)

(1,456
)
Total interest income (expense)
(1,154
)

(1,327
)
INCOME BEFORE INCOME TAXES
66,362

56,470

PROVISION FOR INCOME TAXES
23,887

19,995

NET INCOME
$
42,475

$
36,475

Diluted earnings per share
$
0.49

$
0.42

Diluted weighted average shares outstanding
86,605

87,134

Basic earnings per share
$
0.49

$
0.42

Basic weighted average shares outstanding
86,109

86,403

Cash dividends paid per share
$
0.115

$
0.105

See notes to condensed consolidated financial statements

4

Table of Contents

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

	Three Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$42,475	$36,475
Adjustments to reconcile net income from operations to net cash from operating activities:		
Depreciation	12,088	11,069
Amortization	12,130	12,625
Change in deferred income taxes	3,071	1,936
Expense for stock-based compensation	1,734	1,244
(Gain)/loss on disposal of assets	632	11
Changes in operating assets and liabilities:		
Change in receivables	81,478	72,862
Change in prepaid expenses, prepaid cost of product and other	(3,614)	(9,983)
Change in accounts payable	(5,799)	(2,513)
Change in accrued expenses	(11,796)	(6,447)
Change in income taxes	17,842	17,770
Change in deferred revenues	(48,392)	(56,586)
Net cash from operating activities	101,849	78,463
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(6,794)	(10,652)
Proceeds from sale of assets	131	—
Customer contracts acquired	(186)	(670)
Computer software developed	(11,646)	(7,517)
Proceeds from investments	—	1,000
Purchase of investments	—	(999)
Net cash from investing activities	(18,495)	(18,838)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on credit facilities	(5,726)	(6,340)
Purchase of treasury stock	(4,776)	—
Dividends paid	(9,911)	(9,074)
Excess tax benefits from stock-based compensation	1,743	289
Proceeds from issuance of common stock upon exercise of stock options	2,942	526
Minimum tax withholding payments related to share based compensation	(2,200)	(926)
Proceeds from sale of common stock, net	949	830
Net cash from financing activities	(16,979)	(14,695)
NET CHANGE IN CASH AND CASH EQUIVALENTS	$66,375	$44,930
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$157,313	$63,125
CASH AND CASH EQUIVALENTS, END OF PERIOD	$223,688	$108,055

Net cash paid for income taxes was $1,229 for the three months ended September 30, 2012, compared to $6 net cash received for the same period last year. The Company paid interest of $938 and $1,008 for the three months ended September 30, 2012 and 2011, respectively. Capital expenditures exclude property and equipment additions totaling $7,801 and $10,576 that were in accrued liabilities or were acquired via capital lease during the three months ended

September 30, 2012 and 2011, respectively.

See notes to condensed consolidated financial statements

5

Table of Contents

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

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Description of the company
Jack Henry & Associates, Inc. and Subsidiaries ("JHA" or the "Company") is a provider of integrated computer systems and services that has developed and acquired a number of banking and credit union software systems. The Company's revenues are predominately earned by marketing those systems to financial institutions nationwide together with computer equipment (hardware), by providing the conversion and software implementation services for financial institutions to utilize JHA software systems, and by providing other related services. JHA also provides continuing support and services to customers using in-house or outsourced systems.
Consolidation
The consolidated financial statements include the accounts of JHA and all of its subsidiaries, which are wholly-owned, and all intercompany accounts and transactions have been eliminated.
Fair value of financial instruments
For cash equivalents, amounts receivable or payable and short-term borrowings, fair values approximate carrying value, based on the short-term nature of the assets and liabilities. The fair value of long term debt also approximates carrying value as estimated using discounted cash flows based on the Company's current incremental borrowing rates or quoted prices in active markets.
The Company's estimates of the fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The three levels of the hierarchy are as follows:
Level 1: observable inputs such as quoted prices in active markets
Level 2: inputs other than the quoted prices in active markets that are observable either directly or indirectly
Level 3: unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions
Fair value of financial assets, included in cash and cash equivalents, is as follows:

	Estimated Fair Value Measurements			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Other Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
September 30, 2012				
Financial Assets:				
Money market funds	$181,186	$—	$—	$181,186
June 30, 2012				
Financial Assets:				
Money market funds	$116,013	$—	$—	$116,013

Comprehensive income
Comprehensive income for the three-month periods ended September 30, 2012 and 2011 equals the Company's net income.
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

6

Table of Contents

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, 2012. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in its Form 10-K for the fiscal year ended June 30, 2012.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary (consisting of normal recurring adjustments) to present fairly the financial position of the Company as of September 30, 2012, the results of its operations for the three-month periods ended September 30, 2012 and 2011, and its cash flows for the three-month periods ended September 30, 2012 and 2011. The results of operations for the period ended September 30, 2012 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 developments during the period ended September 30, 2012.

Common stock

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or short-term borrowings on its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At September 30, 2012, there were 15,580 shares in treasury stock and the Company had the remaining authority to repurchase up to 4,411 additional shares. The total cost of treasury shares at September 30, 2012 is $348,732. During fiscal 2013, the Company repurchased 128 treasury shares for $4,776. At June 30, 2012, there were 15,452 shares in treasury stock and the Company had the authority to repurchase up to 4,539 additional shares.

Commitments and contingencies

For fiscal 2013, the Board of Directors approved bonus plans for its executive officers and general managers. Under the plan, bonuses may be paid following the end of the current fiscal year based upon achievement of operating income and individually tailored performance targets. For general managers, one half of each manager’s bonus is contingent upon meeting individual business unit objectives established by the executive officer to whom the general manager reports.

The Company has 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

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, Comprehensive Income in June 2011, which was effective for the Company beginning July 1, 2012. The updated guidance requires non-owner changes in stockholders' equity to be reported either in a single continuous statement of comprehensive income or in two separate but consecutive statements, rather than as part of the statement of changes in stockholders' equity. No changes in disclosure were required as a result of the update.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment, which was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The provisions in this update were effective for the Company beginning July 1, 2012 and its adoption did not have any impact on the financial statements.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles - Goodwill and Other. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The provisions in this update will be effective for the Company beginning July 1, 2013.

Table of Contents

NOTE 4. DEBT

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

	September 30, 2012	June 30, 2012
LONG TERM DEBT		
Term loan	$121,875	$127,500
Capital leases	8,538	3,518
Other borrowings	303	445
	130,716	131,463
Less current maturities	29,485	25,297
Debt, net of current maturities	$101,231	$106,166
SHORT TERM DEBT		
Capital leases	$1,989	$206
Current maturities of long-term debt	29,485	25,297
Notes payable and current maturities of long term debt	$31,474	$25,503

The Company has a bank credit facility agreement that includes a revolving credit facility and a term loan.

Revolving credit facility

The long term revolving loan allows for borrowings of up to $150,000, which may be increased by the Company at any time until maturity to $250,000. The revolving loan terminates June 4, 2015. At September 30, 2012, there was no outstanding revolving loan balance.

Term loan

The term loan had an original principal balance of $150,000, with quarterly principal payments of $5,625 that began on September 30, 2011. The remaining outstanding balance on June 4, 2015 is due and payable on that date. At September 30, 2012, the outstanding balance of $121,875 was bearing interest at a rate of 2.37%, and $22,500 will be maturing within the next twelve months.

Each of the above loans bear interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5%, (b) the Prime Rate or (c) LIBOR plus 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The loans are secured by pledges of capital stock of certain subsidiaries of the Company. The loans are also guaranteed by certain subsidiaries of the Company. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of September 30, 2012, the Company was in compliance with all such covenants.

Capital leases

The Company has entered into various capital lease obligations for the use of certain computer equipment. Long term capital lease obligations were entered into of which $8,538 remains outstanding at September 30, 2012 and $6,797 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling $1,989 at September 30, 2012.

Other lines of credit

The Company renewed an unsecured bank credit line on April 29, 2012 which provides for funding of up to $5,000 and bears interest at the prime rate less 1% (2.25% at September 30, 2012). The credit line was renewed through April 29, 2014. At September 30, 2012, no amount was outstanding.

NOTE 5. INCOME TAXES

The effective tax rate of 36.0% of income before income taxes for the quarter ended September 30, 2012 is slightly higher than 35.4% for the same quarter in fiscal 2012 primarily due to the effect of the Research and Experimentation Credit ("R&E Credit") which expired December 31, 2011.

At September 30, 2012, the Company had $5,755 of gross unrecognized tax benefits, $4,807 of which, if recognized, would affect our effective tax rate. Our policy is to include interest and penalties related to unrecognized tax benefits in the provision for income taxes. As of September 30, 2012, we had accrued interest and penalties of $760 related

8

Table of Contents

to uncertain tax positions.
During the fiscal year ended June 30, 2012, the Internal Revenue Service initiated an examination of the Company's U.S. federal income tax returns for fiscal years ended June 30, 2010 and June 30, 2011. This audit is expected to be completed in fiscal 2013. At this time, it is anticipated that the examination will not result in a material change to the Company's financial statements. The U.S. federal and state income tax returns for June 30, 2009 and all subsequent years remain subject to examination as of September 30, 2012 under statute of limitations rules. We anticipate potential changes resulting from the expiration of statutes of limitations could reduce the unrecognized tax benefits balance by $2,000 - $3,000 within twelve months of September 30, 2012.

NOTE 6. STOCK-BASED COMPENSATION
For the three months ended September 30, 2012 and 2011, there was $1,734 and $1,244, respectively, in compensation expense from equity-based awards.
2005 NSOP and 1996 SOP
The Company previously issued options to employees under the 1996 Stock Option Plan ("1996 SOP") and to outside directors under the 2005 Non-Qualified Stock Option Plan ("2005 NSOP"). No stock options were issued under the 1996 SOP or the 2005 NSOP during the three months ended September 30, 2012.
Changes in stock options outstanding and exercisable are as follows:
2005 NSOP & 1996 SOP – Stock options

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding July 1, 2012	464	$16.19	
Granted	—	—	
Forfeited	—	—	
Exercised	(141)	14.63	
Outstanding September 30, 2012	323	$16.86	$6,780
Vested September 30, 2012	323	$16.86	$6,780
Exercisable September 30, 2012	323	$16.86	$6,780

Compensation cost related to outstanding options has been fully recognized. The weighted-average remaining contractual term on options currently exercisable as of September 30, 2012 was 2.62 years.
Restricted Stock Plan
The Company issues both unit awards and share awards under the Restricted Stock Plan. The following table summarizes non-vested unit awards as of September 30, 2012, as well as activity for the three months then ended:

Unit awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2012	672	18.05
Granted	174	42.39
Vested	—	—
Forfeited	—	—
Outstanding September 30, 2012	846	$23.05

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

Volatility	23.3	%
Risk free interest rate	0.33	%
Dividend yield	1.2	%
Stock Beta	0.864	

At September 30, 2012, there was $13,205 of compensation expense that has yet to be recognized related to non-

9

Table of Contents

vested restricted stock unit awards, which will be recognized over a weighted-average period of 1.82 years.
The following table summarizes non-vested share awards as of September 30, 2012, as well as activity for the three months then ended:

Share awards	Shares	Weighted Average Grant Date Fair Value
Outstanding July 1, 2012	332	$23.13
Granted	18	33.81
Vested	(108)	22.10
Forfeited	—	—
Outstanding September 30, 2012	242	$24.33

At September 30, 2012, there was $2,602 of compensation expense that has yet to be recognized related to non-vested restricted stock share awards, which will be recognized over a weighted-average period of 1.43 years.

NOTE 7. EARNINGS PER SHARE

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

	Three Months Ended September 30,	
	2012	2011
Net Income	$42,475	$36,475
Common share information:		
Weighted average shares outstanding for basic earnings per share	86,109	86,403
Dilutive effect of stock options and restricted stock	496	731
Weighted average shares outstanding for diluted earnings per share	86,605	87,134
Basic earnings per share	$0.49	$0.42
Diluted earnings per share	$0.49	$0.42

Per share information is based on the weighted average number of common shares outstanding for the three-month periods ended September 30, 2012 and 2011. Stock options and restricted stock have been included in the calculation of earnings per share to the extent they are dilutive. 32 anti-dilutive stock options and restricted stock were excluded from the computation of diluted earnings per share for the three-month period ended September 30, 2012 (89 shares were excluded from the computation for the three-month period ended September 30, 2011).

NOTE 8. BUSINESS SEGMENT INFORMATION

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

Table of Contents

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Bank	Credit Union	Total	Bank	Credit Union	Total
REVENUE						
License	$7,281	$5,583	$12,864	$7,674	$4,590	$12,264
Support and service	186,065	58,520	244,585	169,075	51,195	220,270
Hardware	9,080	4,472	13,552	10,359	5,445	15,804
Total revenue	202,426	68,575	271,001	187,108	61,230	248,338
COST OF SALES						
Cost of license	687	390	1,077	901	226	1,127
Cost of support and service	108,723	34,695	143,418	99,773	31,351	131,124
Cost of hardware	7,211	3,367	10,578	7,448	4,213	11,661
Total cost of sales	116,621	38,452	155,073	108,122	35,790	143,912
GROSS PROFIT	$85,805	$30,123	115,928	$78,986	$25,440	104,426
OPERATING EXPENSES			48,412			46,629
INTEREST INCOME (EXPENSE)			(1,154)			(1,327)
INCOME BEFORE INCOME TAXES			$66,362			$56,470

	September 30, 2012	June 30, 2012
Property and equipment, net		
Bank systems and services	$249,247	$245,069
Credit Union systems and services	29,808	31,661
Total	$279,055	$276,730
Intangible assets, net		
Bank systems and services	$590,809	$591,857
Credit Union systems and services	230,558	230,389
Total	$821,367	$822,246

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

NOTE 9. SUBSEQUENT EVENTS

In late October, subsequent to the end of the fiscal period reported, widespread flooding caused by Hurricane Sandy rendered our Lyndhurst, New Jersey item processing center inoperable. This impacted item processing for over 100 bank customers and we continue to work diligently to resolve the situation for our customers. At this time the financial impact on the Company cannot be estimated.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and the accompanying notes to the condensed consolidated financial statements included in this Form 10-Q.

RESULTS OF OPERATIONS

Background and Overview

Jack Henry & Associates, Inc. (JHA) is a leading provider of technology solutions and payment processing services primarily for financial services organizations. Its solutions are marketed and supported through three primary brands. Jack Henry Banking® supports banks ranging from community to mid-tier, multi-billion dollar institutions with information and transaction processing solutions. Symitar® is a leading provider of information and transaction processing solutions for credit unions of all sizes. ProfitStars® provides specialized products and services that enable financial institutions of every asset size and charter, and diverse corporate entities outside the financial services industry, to mitigate and control risks, optimize revenue and growth opportunities, and contain costs. JHA's integrated solutions are available for in-house installation and outsourced and hosted delivery.

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

In the first quarter of fiscal 2013, revenues increased 9% or $22,663 compared to the same period in the prior year, with strong growth continuing in our support & service revenue component, particularly in our electronic payment services. The growth in revenue and the Company's continued focus on cost management, partially offset by a slightly higher tax rate, has resulted in a 16% increase in net income for the quarter.

The current condition of the U.S. financial markets continues to impact the overall demand and spending for new products and services by some of our customers. The profitability of many financial institutions continues to improve, but in many cases remains low and this appears to have resulted in some reduction of demand for new products and services. During the past four years, a number of financial institutions have closed or merged due to regulatory action. We believe that regulatory closings will continue to decline through fiscal 2013, absent a significant downturn in the economy. Furthermore, the increase in bank failures and forced consolidations has been, to some extent, offset by a general decline in the level of acquisition activity among financial institutions.

We continue into fiscal 2013 with cautious optimism following strong first quarter results. Significant portions of our business continue to come from recurring revenue and our healthy sales pipeline is also encouraging. Our customers continue to face regulatory and operational challenges which our products and services address, and in these times they have an even greater need for our solutions that directly address institutional profitability and efficiency. Our strong balance sheet, access to extensive lines of credit, the strength of our existing product line and an unwavering commitment to superior customer service position us well to address current and future opportunities to extend our customer base and produce returns for our stockholders.

A detailed discussion follows of the major components of the results of operations for the three month period ended September 30, 2012. All amounts are in thousands and discussions compare the current three month period ended September 30, 2012, to the prior year three month period ended September 30, 2011.

REVENUE

License Revenue	Three Months Ended September 30,		% Change
	2012	2011	
License	$12,864	$12,264	5 %
Percentage of total revenue	5 %	5 %	

License revenue for core products remains consistent compared to the same period last year, with the current quarter increase being driven by a slight increase in revenue from our complementary products compared to the last fiscal year.

While license fees will fluctuate, recent trends indicate that our customers are increasingly electing to contract for our products via outsourced delivery rather than a traditional license as our outsourced delivery does not require an up-front capital investment in license fees. We expect this trend to continue in the long term.

Table of Contents

Support and Service Revenue	Three Months Ended September 30,		% Change
	2012	2011	
Support and service	$244,585	$220,270	11 %
Percentage of total revenue	90 %	89 %	

	Qtr over Qtr Change	
	$ Change	% Change
In-House Support & Other Services	$4,765	6 %
Electronic Payment Services	12,267	15 %
Outsourcing Services	4,152	9 %
Implementation Services	3,131	18 %
Total Increase	$24,315	

There was growth in all support and service revenue components for the current quarter.

In-house support and other services revenue increased due to annual maintenance fee increases (as our customers' assets have grown) and increased revenues from our system conversion services. Revenue from our complementary products has also grown as the total number of supported in-house products has grown.

Electronic payment services continue to experience the largest growth. The quarterly revenue increases are attributable to strong performance across our electronic payment products, particularly from debit/credit card processing services, online bill payment services and ACH processing.

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

Implementation services revenue increased for the quarter due mainly to increased implementations of our core banking platform products and related complementary products, coupled with higher merger conversion revenues from our core banking platform products.

Hardware Revenue	Three Months Ended September 30,		% Change
	2012	2011	
Hardware	$13,552	$15,804	(14)%
Percentage of total revenue	5 %	6 %	

Hardware revenue continues to fluctuate from quarter to quarter. Revenue has decreased for the three month period due to a decrease in the number of third party hardware systems and components delivered. Although there will be continuing quarterly fluctuations, we expect there to be an overall decreasing trend in hardware sales due to the change in sales mix towards outsourcing contracts, which typically do not include hardware, and the deflationary trend of computer prices generally.

BACKLOG

Our backlog of $423,352 ($92,153 in-house and $331,199 outsourcing) at September 30, 2012 increased 17% from $361,222 ($73,221 in-house and $288,001 outsourcing) at September 30, 2011. The current quarter backlog decreased 3% from June 30, 2012, when backlog was $435,344 ($92,741 in-house and $342,603 outsourcing).

Table of Contents

COST OF SALES AND GROSS PROFIT

	Three Months Ended September 30, 2012	2011	% Change
Cost of License	$1,077	$1,127	(4)%
Percentage of total revenue	<1%	<1%	
License Gross Profit	$11,787	$11,137	6%
Gross Profit Margin	92%	91%	
Cost of support and service	$143,418	$131,124	9%
Percentage of total revenue	53%	53%	
Support and Service Gross Profit	$101,167	$89,146	13%
Gross Profit Margin	41%	40%	
Cost of hardware	$10,578	$11,661	(9)%
Percentage of total revenue	4%	5%	
Hardware Gross Profit	$2,974	$4,143	(28)%
Gross Profit Margin	22%	26%	
TOTAL COST OF SALES	$155,073	$143,912	8%
Percentage of total revenue	57%	58%	
TOTAL GROSS PROFIT	$115,928	$104,426	11%
Gross Profit Margin	43%	42%	

Cost of license depends greatly on third party reseller agreement software vendor costs. During the quarter, sales of these third party vendor licenses decreased as a percentage of total license revenue leading to lower related costs and slightly increased gross profit margins.

Cost of support and service increased for the three months commensurate with the increase in support and services revenue, as evidenced by the gross profit margins only increasing slightly.

In general, changes in cost of hardware trend consistently with hardware revenue. For the current quarter however, reduced sales of higher margin products related to hardware upgrades has driven lower hardware margins.

OPERATING EXPENSES

Selling and Marketing

	Three Months Ended September 30, 2012	2011	% Change
Selling and marketing	$20,189	$18,754	8%
Percentage of total revenue	7%	8%	

Selling and marketing expenses for the quarter has increased mainly due to higher commission expenses. This is in line with increased sales volume of long term service contracts on which commissions are paid as a percentage of total revenue.

Research and Development

	Three Months Ended September 30, 2012	2011	% Change
Research and development	$14,645	$14,936	(2)%
Percentage of total revenue	5%	6%	

Research and development expenses decreased for the three month period ended September 30, 2012 primarily due to increased capitalization of costs for ongoing software development projects, which has also driven the decreases in the percentage of total revenue for the quarter.

Table of Contents

General and Administrative

	Three Months Ended September 30, 2012	2011	% Change
General and administrative	$13,578	$12,939	5 %
Percentage of total revenue	5 %	5 %	

General and administrative expenses for the quarter have increased slightly compared to last year due mainly to increased salary costs in line with a 6% increase in general and administrative headcount.

INTEREST INCOME AND EXPENSE

	Three Months Ended September 30, 2012	2011	% Change
Interest Income	$187	$129	45 %
Interest Expense	$(1,341)	$(1,456)	(8)%

Interest income for the three month period ended September 30, 2012 fluctuated due to changes in invested balances and yields on invested balances. Interest expense decreased for the quarter due to the lower outstanding balance on our term loan compared to last year.

PROVISION FOR INCOME TAXES

The provision for income taxes was $23,887 or 36.0% for the three month period ended September 30, 2012 compared with $19,995 or 35.4% for the same period last year. The prior year income tax rate was slightly lower primarily due to the effect of the Research and Experimentation Credit (“R&E Credit”), which expired effective December 31, 2011.

NET INCOME

Net income increased 16% for the three months ended September 30, 2012. For the first quarter of fiscal 2013, it was $42,475 or $0.49 per diluted share compared to $36,475, or $0.42 per diluted share in the same period last year.

BUSINESS SEGMENT DISCUSSION

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

Bank Systems and Services

	Three Months Ended September 30, 2012	2011	% Change
Revenue	$202,426	$187,108	8 %
Gross Profit	$85,805	$78,986	9 %
Gross Profit Margin	42 %	42 %	

Revenue in the Bank segment increased 8% compared to the equivalent quarter last fiscal year. This was primarily due to growth in all areas of support and service revenue, particularly a 13% increase in electronic payment transaction processing services revenue.

Gross profit margins have remained consistent.

Table of Contents

Credit Union Systems and Services

	Three Months Ended September 30,		% Change
	2012	2011	
Revenue	$68,575	$61,230	12 %
Gross Profit	$30,123	$25,440	18 %
Gross Profit Margin	44 %	42 %	

Revenue in the Credit Union segment increased 12% from the same quarter last year mainly due to support & service revenue which grew 14%, coupled with a small increase in complementary product license revenues. Support & service revenue increased due mainly to an 18% increase in electronic payment services from continuing growth of our online bill payment processing and debit/credit card processing services in the Credit Union segment. Also, continued growth of our outsourcing solutions in the Credit Union segment led to a 35% increase in outsourcing services revenues compared to the same quarter last year.

Gross profit margins for the Credit Union segment for the three month period have increased mainly due to the increase in license revenue noted above. License revenues achieve higher margins relative to the other components of revenue.

FINANCIAL CONDITION

Liquidity

The Company's cash and cash equivalents totaled $223,688 at September 30, 2012, increasing from $157,313 at June 30, 2012, and from $108,055 at September 30, 2011. The increase from June 30, 2012 is primarily due to continued receipts from our annual maintenance billings.

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

	Three Months Ended September 30,	
	2012	2011
Net income	$42,475	$36,475
Non-cash expenses	29,655	26,885
Change in receivables	81,478	72,862
Change in deferred revenue	(48,392)	(56,586)
Change in other assets and liabilities	(3,367)	(1,173)
Net cash provided by operating activities	$101,849	$78,463

Cash provided by operating activities for the fiscal year to date increased 30% compared to last year. Cash from operations is primarily used to repay debt, pay dividends and fund acquisitions and other capital expenditures. The increase compared to last year reflects increased earnings driven by continued strong revenue growth, ongoing cost control and decreased interest costs.

Cash used in investing activities for the current year totaled $18,495. The largest use of cash included $11,646 for the development of software and capital expenditures on facilities and equipment of $6,794, including spending on our online bill payment data center migration. Other uses of cash included $186 for the acquisition of customer contracts. These expenditures have been partially offset by proceeds of $131 from the sale of property. In the first three months of fiscal 2012, cash used in investing activities totaled $18,838 which included capital expenditures for facilities and equipment of $10,652, related to computer equipment and related purchased software, with other major uses of cash being $7,517 for the development of software and $670 for the acquisition of customer contracts.

Financing activities used cash of $16,979 during the current year. There were cash outflows to repay long and short term borrowings on our credit facilities of $5,726, dividends paid to stockholders of $9,911, and purchase of treasury shares of $4,776. Cash used was partially offset by $3,434 net proceeds from the issuance of stock and tax related to stock-based compensation. Net cash used by financing activities in the first three months of last year, was $14,695 and includes $6,340 repayments on our lines of credit and $9,074 in dividend payments to shareholders, partially offset by $719 of net proceeds from the issuance of stock and tax related to stock-based compensation.

While the current condition of the U.S. financial markets continues to impact our customers, we have not experienced any significant issues with our current collection efforts. Furthermore, we believe that any future impact to our liquidity

16

Table of Contents

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 $6,794 and $10,652 for the three-month periods ended September 30, 2012 and 2011, respectively, were made primarily for additional equipment and the improvement of existing facilities. These additions were funded from cash generated by operations. Total consolidated capital expenditures for the Company for fiscal year 2013 are not expected to exceed $40,000 and will be funded from cash generated by operations.

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or short-term borrowings on its existing credit facilities. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At September 30, 2012, there were 15,580 shares in treasury stock and the Company had the remaining authority to repurchase up to 4,411 additional shares. The total cost of treasury shares at September 30, 2012 is $348,732. During fiscal 2013, the Company repurchased 128 treasury shares for $4,776. At June 30, 2012, there were 15,452 shares in treasury stock and the Company had the authority to repurchase up to 4,539 additional shares.

The Company has entered into a bank credit facility agreement that includes a revolving loan and a term loan.

Revolving credit facility

The long term revolving loan allows for borrowings of up to $150,000, which may be increased by the Company at any time until maturity to $250,000. The revolving loan terminates June 4, 2015. At September 30, 2012, there was no outstanding revolving loan balance.

Term loan

The term loan had an original principal balance of $150,000, with quarterly principal payments of $5,625 that began on September 30, 2011. The remaining outstanding balance on June 4, 2015 is due and payable on that date. At September 30, 2012, the outstanding balance of $121,875 was bearing interest at a rate of 2.37%, and $22,500 will be maturing within the next twelve months.

Each of the above loans bear interest at a variable rate equal to (a) a rate based on LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5%, (b) the Prime Rate or (c) LIBOR plus 1.0%), plus an applicable percentage in each case determined by the Company's leverage ratio. The loans are secured by pledges of capital stock of certain subsidiaries of the Company. The loans are also guaranteed by certain subsidiaries of the Company. The credit facility is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of September 30, 2012, the Company was in compliance with all such covenants.

Capital leases

The Company has entered into various capital lease obligations for the use of certain computer equipment. Long term capital lease obligations were entered into of which $8,538 remains outstanding at September 30, 2012 and $6,797 will be maturing within the next twelve months. The Company also has short term capital lease obligations totaling $1,989 at September 30, 2012.

Other lines of credit

The Company renewed an unsecured bank credit line on April 29, 2012 which provides for funding of up to $5,000 and bears interest at the prime rate less 1% (2.25% at September 30, 2012). The credit line was renewed through April 29, 2014. At September 30, 2012, no amount was outstanding.

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, 2012.

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,

17

Table of Contents

the matters detailed at Risk Factors in its Annual Report on Form 10-K for the fiscal year ended June 30, 2012. 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 solid, with increased gross profit and net income for the three month period ended September 30, 2012, compared to the same period a year ago. We continue to be cautiously optimistic, as we maintain significant levels of recurring revenue and continue to see a strong backlog of contracts for products and services yet to be delivered. Our overall results reflect 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 that we are well positioned to address current and future opportunities which will arise to extend our customer base and produce returns for our stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk refers to the risk that a change in the level of one or more market prices, interest rates, indices, volatilities, correlations or other market factors such as liquidity, will result in losses for a certain financial instrument or group of financial instruments. We are currently exposed to credit risk on credit extended to customers and interest risk on outstanding debt. We do not currently use any derivative financial instruments. We actively monitor these risks through a variety of controlled procedures involving senior management.

Based on the controls in place and the credit worthiness of the customer base, we believe the credit risk associated with the extension of credit to our customers will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Based on our outstanding debt with variable interest rates as of September 30, 2012, a 1% increase in our borrowing rate would increase annual interest expense in fiscal 2013 by less than $1,300.

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.

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
(c) Issuer Purchases of Equity Securities
The following shares of the Company were repurchased during the quarter ended September 30, 2012:

	Total Number of Shares Purchased	Average Price of Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans (1)
July 1 - July 31, 2012	—	$—	—	4,538,552
August 1 - August 31, 2012	—	—	—	4,538,552
September 1 - September 30, 2012	128,197	37.26	128,197	4,410,355
Total	128,197	37.26	128,197	4,410,355

(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, increased by 2.0 million shares on April 29, 2005, by 5.0 million shares on August 28, 2006, by 5.0 million shares on February 4, 2008, and by 5.0 million shares on August 25, 2008. 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 November 7, 2012.

31.2 Certification of the Chief Financial Officer dated November 7, 2012.

32.1 Written Statement of the Chief Executive Officer dated November 7, 2012.

32.2 Written Statement of the Chief Financial Officer dated November 7, 2012.

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* Furnished with this quarterly report on Form 10-Q are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets at September 30, 2012 and June 30, 2012, (ii) the Condensed Consolidated Statements of Income for the three-month periods ended September 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2012 and 2011, and (iv) Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

JACK HENRY & ASSOCIATES, INC.

Date: November 7, 2012	/s/ John F. Prim John F. Prim Chief Executive Officer and Chairman
Date: November 7, 2012	/s/ Kevin D. Williams Kevin D. Williams Chief Financial Officer and Treasurer