

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
November 08, 2006

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 September 30, 2006

OR

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

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

Commission file number 0-14112

JACK HENRY & ASSOCIATES, INC.

-----  
(Exact name of registrant as specified in its charter)

Delaware

43-1128385

-----  
(State or Other Jurisdiction  
of Incorporation)

-----  
I.R.S. Employer  
Identification No.)

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

-----  
Address of Principle Executive Offices  
(Zip Code)

417-235-6652

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

N/A

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

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

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

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

Yes [ ] No [X]

# Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

## 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 October 30, 2006, Registrant has 90,695,747 shares of common stock outstanding (\$0.01 par value)

### JACK HENRY & ASSOCIATES, INC. CONTENTS

|  | Page<br>Reference |
|--|-------------------|
| PART I FINANCIAL INFORMATION   |                   |
| ITEM 1 Financial Statements  |                   |
| Condensed Consolidated Balance Sheets<br>September 30, 2006 and June 30, 2006 (Unaudited)                                | 3                 |
| Condensed Consolidated Statements of Income<br>for the Three Months Ended September 30, 2006<br>and 2005 (Unaudited)     | 4                 |
| Condensed Consolidated Statements of Cash Flows<br>for the Three Months Ended September 30, 2006<br>and 2005 (Unaudited) | 5                 |
| Notes to Condensed Consolidated Financial<br>Statements (Unaudited)  | 6                 |
| ITEM 2 Management's Discussion and Analysis of Financial<br>Condition and Results of Operations                          | 9                 |
| ITEM 3 Quantitative and Qualitative Disclosures about<br>Market Risk   | 15                |
| ITEM 4 Controls and Procedures   | 15                |
| PART II OTHER INFORMATION  |                   |
| ITEM 2 Unregistered Sales of Equity Securities<br>and Use of Proceeds  | 16                |
| ITEM 4 Submission of Matters to a Vote of Security Holders   | 16                |
| ITEM 6 Exhibits  | 17                |
| PART 1. FINANCIAL INFORMATION  |                   |
| ITEM 1. FINANCIAL STATEMENTS   |                   |

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

September 30,      June 30,

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

|  | 2006       | 2006       |
|--|------------|------------|
|  | -----      | -----      |
| ASSETS   |            |            |
| CURRENT ASSETS:  |            |            |
| Cash and cash equivalents  | \$ 49,842  | \$ 74,139  |
| Investments, at amortized cost   | 1,723      | 2,181      |
| Receivables  | 118,768    | 180,295    |
| Prepaid expenses and other   | 24,237     | 24,402     |
| Prepaid cost of product  | 19,915     | 22,228     |
| Deferred income taxes  | 3,310      | 3,165      |
|  | -----      | -----      |
| Total current assets   | 217,795    | 306,410    |
| PROPERTY AND EQUIPMENT, net  | 250,685    | 251,632    |
| OTHER ASSETS:  |            |            |
| Prepaid cost of product  | 15,837     | 15,191     |
| Computer software, net of amortization   | 47,353     | 43,840     |
| Other non-current assets   | 9,351      | 9,285      |
| Customer relationships, net of amortization  | 61,562     | 63,162     |
| Trade names  | 4,009      | 4,009      |
| Goodwill   | 214,512    | 212,538    |
|  | -----      | -----      |
| Total other assets   | 352,624    | 348,025    |
| Total assets   | \$ 821,104 | \$ 906,067 |
|  | =====      | =====      |
| LIABILITIES AND STOCKHOLDERS' EQUITY   |            |            |
| CURRENT LIABILITIES:   |            |            |
| Accounts payable   | \$ 5,351   | \$ 14,525  |
| Accrued expenses   | 24,518     | 29,012     |
| Accrued income taxes   | 9,185      | 3,312      |
| Note payable and current maturities<br>of capital lease  | 222        | 50,241     |
| Deferred revenues  | 136,467    | 166,402    |
|  | -----      | -----      |
| Total current liabilities  | 175,743    | 263,492    |
| LONG TERM LIABILITIES:   |            |            |
| Deferred revenues  | 19,427     | 19,317     |
| Deferred income taxes  | 49,570     | 47,430     |
| Other long-term liabilities,<br>net of current maturities  | 598        | 616        |
|  | -----      | -----      |
| Total long term liabilities  | 69,595     | 67,363     |
| Total liabilities  | 245,338    | 330,855    |
| STOCKHOLDERS' EQUITY   |            |            |
| Preferred stock - \$1 par value; 500,000<br>shares authorized, none issued   | -          | -          |
| Common stock - \$0.01 par value:<br>250,000,000 shares authorized;<br>Shares issued at 09/30/06 were 94,234,158<br>Shares issued at 06/30/06 were 93,955,663 | 942        | 939        |
| Additional paid-in capital   | 228,178    | 224,195    |
| Retained earnings  | 418,250    | 401,849    |
| Less treasury stock at cost 3,755,011 shares<br>at 09/30/06, 2,766,062 shares at 06/30/06  | (71,604)   | (51,771)   |
|  | -----      | -----      |
| Total stockholders' equity   | 575,766    | 575,212    |

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

|  |            |            |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 821,104 | \$ 906,067 |
|  | =====      | =====      |

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>September 30, |           |
|---|-------------------------------------|-----------|
|   | 2006                                | 2005      |
|   | -----                               | -----     |
| REVENUE                                     |                                     |           |
| License                                     | \$ 15,539                           | \$ 16,908 |
| Support and service                         | 115,577                             | 99,401    |
| Hardware                                    | 19,499                              | 20,674    |
|   | -----                               | -----     |
| Total                                       | 150,615                             | 136,983   |
| COST OF SALES                               |                                     |           |
| Cost of license                             | 556                                 | 851       |
| Cost of support and service                 | 73,050                              | 64,237    |
| Cost of hardware                            | 13,702                              | 15,340    |
|   | -----                               | -----     |
| Total                                       | 87,308                              | 80,428    |
| GROSS PROFIT                                | 63,307                              | 56,555    |
| OPERATING EXPENSES                          |                                     |           |
| Selling and marketing                       | 11,966                              | 11,440    |
| Research and development                    | 8,516                               | 6,749     |
| General and administrative                  | 9,906                               | 7,805     |
|   | -----                               | -----     |
| Total                                       | 30,388                              | 25,994    |
| OPERATING INCOME                            | 32,919                              | 30,561    |
| INTEREST INCOME (EXPENSE)                   |                                     |           |
| Interest income                             | 1,556                               | 443       |
| Interest expense                            | (216)                               | (175)     |
|   | -----                               | -----     |
| Total                                       | 1,340                               | 268       |
| INCOME BEFORE INCOME TAXES                  | 34,259                              | 30,829    |
| PROVISION FOR INCOME TAXES                  | 12,847                              | 11,407    |
|   | -----                               | -----     |
| NET INCOME                                  | \$ 21,412                           | \$ 19,422 |
|   | =====                               | =====     |
| Diluted net income per share                | \$ 0.23                             | \$ 0.21   |
|   | =====                               | =====     |
| Diluted weighted average shares outstanding | 92,893                              | 93,998    |
|   | =====                               | =====     |
| Basic net income per share                  | \$ 0.24                             | \$ 0.21   |

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

|   |        |        |
|---|--------|--------|
|   | =====  | =====  |
| Basic weighted average shares outstanding | 91,056 | 91,562 |
|   | =====  | =====  |

See notes to condensed consolidated financial statements

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

|   | Three Months Ended<br>September 30, |               |
|---|-------------------------------------|---------------|
|   | -----<br>2006                       | -----<br>2005 |
|   | -----                               | -----         |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                                     |               |
| Net Income  | \$ 21,412                           | \$ 19,422     |
| Adjustments to reconcile net income from<br>operations to cash from operating activities: |                                     |               |
| Depreciation  | 9,063                               | 8,064         |
| Amortization  | 2,855                               | 2,589         |
| Deferred income taxes   | 1,995                               | 1,560         |
| Expense for stock-based compensation  | 148                                 | 149           |
| Other, net  | 1                                   | (7)           |
| Changes in operating assets and liabilities,<br>net of acquisitions:                      |                                     |               |
| Receivables   | 61,527                              | 121,014       |
| Prepaid expenses, prepaid cost of product,<br>and other                                   | 1,718                               | 130           |
| Accounts payable  | (9,174)                             | (10,164)      |
| Accrued expenses  | (4,494)                             | (4,422)       |
| Income taxes  | 6,239                               | 3,198         |
| Deferred revenues   | (29,825)                            | (33,626)      |
|   | -----                               | -----         |
| Net cash from operating activities  | 61,465                              | 107,907       |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                                     |               |
| Payment for acquisitions, net   | (1,974)                             | -             |
| Capital expenditures  | (8,117)                             | (8,047)       |
| Computer software developed   | (4,768)                             | (3,969)       |
| Proceeds from investments   | 2,110                               | 1,000         |
| Purchase of investments   | (1,638)                             | (992)         |
| Other, net  | 34                                  | 34            |
|   | -----                               | -----         |
| Net cash from investing activities  | (14,353)                            | (11,974)      |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |                                     |               |
| Note payable, net   | (50,037)                            | (45,000)      |
| Purchase of treasury stock  | (19,833)                            | (6,334)       |
| Dividends paid  | (5,010)                             | (4,121)       |
| Excess tax benefits from stock-based<br>compensation                                      | 419                                 | -             |
| Proceeds from issuance of common stock<br>upon exercise of stock options                  | 2,886                               | 3,287         |
| Proceeds from sale of common stock, net   | 166                                 | 185           |
|   | -----                               | -----         |

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

|  |             |           |
|--|-------------|-----------|
| Net cash from financing activities             | (71,409)    | (51,983)  |
|  | -----       | -----     |
| NET CHANGE IN CASH AND CASH EQUIVALENTS        | \$ (24,297) | \$ 43,950 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | \$ 74,139   | \$ 11,608 |
|  | -----       | -----     |
| CASH AND CASH EQUIVALENTS, END OF PERIOD       | \$ 49,842   | \$ 55,558 |
|  | =====       | =====     |

Net cash paid for income taxes was \$4,194 and \$6,649 for the three months ended September 30, 2006 and 2005, respectively. The Company paid interest of \$671 and \$175 for the three months ended September 30, 2006 and 2005, respectively.

See notes to condensed consolidated financial statements

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(In Thousands, Except Share and 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 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 a JHA software system. 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

Our net income for the quarters ended September 30, 2006 and 2005 includes \$148 and \$149 of stock-based compensation costs, respectively.

The Restricted Stock Plan was adopted by the Company on November 1, 2005, for its employees. Up to 3,000,000 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 September 30, 2006, no restricted stock has been issued.

#### COMPREHENSIVE INCOME

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

Comprehensive income for the three-month periods ended September 30, 2006 and 2005 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, 2006, there were 2,766,062 shares in treasury stock and the Company had the remaining authority to repurchase up to 2,224,554 shares. On August 25, 2006, the Company's Board of Directors approved an additional 5.0 million share increase to the stock repurchase authorization. During the first quarter of fiscal 2007, the Company repurchased 988,949 treasury shares for \$19,833. The total cost of treasury shares at September 30, 2006 is \$71,604. At September 30, 2006, there were 3,755,011 shares remaining in treasury stock and the Company had the authority to repurchase up to 6,235,605 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, 2006. 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, 2006.

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 results of operations, financial position and cash flows for each interim period shown.

The results of operations for the period ended September 30, 2006 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 months ended September 30, 2006.

### DEBT

The Company renewed a bank credit line on March 22, 2006 which provides for funding of up to \$8,000 and bears interest at the prime rate (8.25% at September 30, 2006). The credit line expires March 22, 2007 and is secured

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

by \$1,000 of investments. At September 30, 2006, no amount was outstanding.

The Company obtained a bank credit line on April 28, 2006 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (7.25% at June 30, 2006). The credit line matures on April 30, 2008. At June 30, 2006, no amount was outstanding.

An unsecured revolving bank credit facility allows borrowing of up to \$150,000 which may be increased by the Company at any time prior to April 20, 2008 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 1/2% 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 April 19, 2010. At June 30, 2006, the revolving bank credit facility balance was \$50,000. At September 30, 2006, no amount was outstanding.

During fiscal year 2006, a capital lease obligation of \$737 was incurred when the Company entered into a lease for the use of certain computer equipment. At June 30, 2006, \$662 was outstanding, of which \$241 is included in current maturities. At September 30, 2006, \$611 was outstanding, of which \$222 is included in current maturities.

### COMMITMENTS AND CONTINGENCIES

On August 31, 2006, 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 if earnings per share growth targets are achieved by the Company.

### NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No.3" ("SFAS 154"). SFAS 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented using the accounting principle. SFAS 154 is effective for accounting changes and corrections of errors in fiscal years beginning after December 15, 2005. The Company adopted SFAS 154 effective July 1, 2006. As there were no accounting changes or errors for the period ended September 30, 2006, the adoption had no impact on the Company's results of operations or financial condition.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is effective for the Company beginning July 1, 2007. The Company is currently evaluating the impact of this Interpretation.

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



## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

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 is effective for fiscal years ending after November 15, 2006. 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 Company is currently evaluating the impact of SAB 108 and does not expect that the bulletin will have a material impact on the Company's condensed consolidated financial statements.

In September 2006, the FASB issued 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, 2007. The Company is currently evaluating the impact of this pronouncement.

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

|  | Three Months Ended<br>September 30, |        |
|--|-------------------------------------|--------|
|  | 2006                                | 2005   |
| Weighted average number of<br>common shares outstanding - basic                            | 91,056                              | 91,562 |
| Common stock equivalents   | 1,837                               | 2,436  |
| Weighted average number of common<br>and common equivalent shares<br>outstanding - diluted | 92,893                              | 93,998 |

Per share information is based on the weighted average number of common shares outstanding for the three month periods ended September 30, 2006 and 2005. Stock options have been included in the calculation of income per share to the extent they are dilutive. Non-dilutive stock options to purchase approximately 1,488 and 1,716 shares for the three-month periods ended September 30, 2006 and 2005, 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

Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

|                             | September 30, 2006 |                 |                  | September 30, 2005 |                 |                  |
|-----------------------------|--------------------|-----------------|------------------|--------------------|-----------------|------------------|
|                             | Bank               | Credit Union    | Total            | Bank               | Credit Union    | Total            |
| <b>REVENUE</b>              |                    |                 |                  |                    |                 |                  |
| License                     | \$ 12,598          | \$ 2,941        | \$ 15,539        | \$ 12,317          | \$ 4,591        | \$ 16,908        |
| Support and service         | 97,014             | 18,563          | 115,577          | 82,726             | 16,675          | 99,401           |
| Hardware                    | 15,098             | 4,401           | 19,499           | 16,377             | 4,297           | 20,674           |
| Total                       | 124,710            | 25,905          | 150,615          | 111,420            | 25,563          | 136,983          |
| <b>COST OF SALES</b>        |                    |                 |                  |                    |                 |                  |
| Cost of license             | 544                | 12              | 556              | 313                | 538             | 851              |
| Cost of support and service | 59,549             | 13,501          | 73,050           | 51,933             | 12,304          | 64,237           |
| Cost of hardware            | 10,444             | 3,258           | 13,702           | 12,117             | 3,223           | 15,340           |
| Total                       | 70,537             | 16,771          | 87,308           | 64,363             | 16,065          | 80,428           |
| <b>GROSS PROFIT</b>         | <b>\$ 54,173</b>   | <b>\$ 9,134</b> | <b>\$ 63,307</b> | <b>\$ 47,057</b>   | <b>\$ 9,498</b> | <b>\$ 56,555</b> |

|  | September 30,<br>2006 | June 30,<br>2006 |
|--|-----------------------|------------------|
| <b>Property and equipment, net</b>       |                       |                  |
| Bank systems and services                | \$ 216,813            | \$ 217,438       |
| Credit Union systems and services        | 33,872                | 34,194           |
| Total                                    | \$ 250,685            | \$ 251,632       |
| <b>Identified intangible assets, net</b> |                       |                  |
| Bank systems and services                | \$ 273,846            | \$ 271,259       |
| Credit Union systems and services        | 53,590                | 52,290           |
| Total                                    | \$ 327,436            | \$ 323,549       |

NOTE 6. SUBSEQUENT EVENTS

On October 31, 2006, the Company's Board of Directors declared a quarterly cash dividend of \$.055 per share of common stock, payable on December 5, 2006, to shareholders of record on November 16, 2006.

On November 1, 2006, the Company acquired all of the capital stock of Margin Maximizer Group, Inc., which does business as US Banking Alliance ("USBA"). USBA is a leading provider of loan and deposit pricing software and related consulting services to banks and credit unions. The purchase price was \$26,785, paid in cash at closing.

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

RESULTS OF OPERATIONS

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

### 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 regarding our systems and provide continuing customer support services after the systems are implemented. For our customers who prefer not to make an up-front capital investment in software and hardware, we provide our full range of products and services on an outsourced basis through our six data centers and 23 item-processing centers located throughout the United States.

A detailed discussion of the major components of the results of operations for the three months ended September 30, 2006 follows. All amounts are in thousands and discussions compare the current three-month period ended, September 30, 2006, to the prior year three-month period ended September 30, 2005.

### REVENUE

| License Revenue             | Three Months Ended<br>September 30, |           | % Change |
|-----------------------------|-------------------------------------|-----------|----------|
|                             | 2006                                | 2005      |          |
| License                     | \$ 15,539                           | \$ 16,908 | -8%      |
| Percentage of total revenue | 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 license revenue decrease in the quarter can be partially attributed to increasing demand by banks and credit unions for item and data processing delivered through our outsourcing offering instead of in-house. Outsourcing does not require software license agreements; therefore, the financial institution's initial capital outlay is dramatically reduced by the choice of this delivery alternative.

| Support and Service Revenue | Three Months Ended<br>September 30, |           | % Change |
|-----------------------------|-------------------------------------|-----------|----------|
|                             | 2006                                | 2005      |          |
| Support and service         | \$ 115,577                          | \$ 99,401 | +16%     |
| Percentage of total revenue | 77%                                 | 73%       |          |

| Quarter Over Quarter Change       | \$ Change | % Change |
|-----------------------------------|-----------|----------|
| In-House Support & Other Services | \$ 6,393  | +14%     |
| EFT Support                       | 7,000     | +47%     |
| Outsourcing Services              | 1,656     | +7%      |
| Implementation Services           | 1,127     | +9%      |
| Total Increase                    | \$ 16,176 |          |

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

Support and services fees are generated from implementation services (including conversion, installation, implementation, 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 ATM and debit card processing (EFT Support) services.

There was strong growth in all of the support and service revenue components for the quarter ended September 30, 2006. In-house support and other services increased primarily from additional software licenses installed during the previous twelve months. EFT support, including ATM and debit card transaction processing services and online bill payment services, experienced the largest percentage of growth. Our daily transaction counts are rapidly growing as we have added customers and as our customers continue to experience consistent organic growth in all three components of EFT support. Outsourcing services for banks and credit unions continue to drive revenue growth with the addition of new bank and credit union customers and our existing customers' growth in asset size and number of accounts. The growth in implementation services revenue is partially due to an increase in the number of license implementations.

| Hardware Revenue            | Three Months Ended<br>September 30, |           | % Change |
|-----------------------------|-------------------------------------|-----------|----------|
|                             | 2006                                | 2005      |          |
| Hardware                    | \$ 19,499                           | \$ 20,674 | -6%      |
| Percentage of total revenue | 13%                                 | 15%       |          |

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

Hardware revenue decreased mainly due to a lower unit price of systems delivered for the current quarter as compared to the same period last year. Hardware revenue in the prior year's quarter was 15% of total revenue while hardware revenue in the current quarter is 13%. We expect this decrease as a percentage of total revenue to continue as the entire industry is experiencing the impact of rising equipment processing power and decreasing equipment prices. This is also impacted by increased demand for outsourcing services, as significant sales of hardware normally accompany only in-house sales.

### BACKLOG

Our backlog increased 8% at September 30, 2006 to \$222,400 (\$69,700 in-house and \$152,700 outsourcing) from \$205,800 (\$63,400 in-house and \$142,400 outsourcing) at September 30, 2005.

### 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, ATM and debit card 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

## Edgar Filing: HENRY JACK & ASSOCIATES INC - Form 10-Q

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 |        | % Change |
|--------------------------------|--------------------|--------|----------|
|                                | September 30,      |        |          |
|                                | 2006               | 2005   |          |
| Cost of License                | \$ 556             | \$ 851 | -35%     |
| Percentage of total revenue    |                    |        |          |