

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
November 06, 2009

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

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

For the quarterly period ended September 30, 2009

OR

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

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

Commission file number 0-14112

JACK HENRY & ASSOCIATES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation)

43-1128385

(I.R.S Employer Identification No.)

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

(Address of Principle Executive Offices)

(Zip Code)

417-235-6652

(Registrant's telephone number, including area code)

N/A

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

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

Yes [X] No [ ]

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

Yes [ ] No [ ]

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of November 3, 2009, Registrant has 84,690,968 shares of common stock outstanding (\$0.01 par value)

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

## ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2009	June 30, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 108,018	\$ 118,251
Investments, at amortized cost	1,000	1,000
Receivables	124,633	192,733
Income tax receivable	-	2,692
Prepaid expenses and other	25,790	24,371
Prepaid cost of product	25,767	19,717
Deferred income taxes	882	882
Total current assets	286,090	359,646
PROPERTY AND EQUIPMENT, net	241,411	237,778
<b>OTHER ASSETS:</b>		
Prepaid cost of product	7,603	6,793
Computer software, net of amortization	83,175	82,679
Other non-current assets	11,635	11,955
Customer relationships, net of amortization	53,346	55,450
Trade names	3,999	3,999
Goodwill	292,400	292,400
Total other assets	452,158	453,276
Total assets	\$ 979,659	\$ 1,050,700

## LIABILITIES AND STOCKHOLDERS' EQUITY

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CURRENT LIABILITIES:

Accounts payable	\$	9,170	\$	8,206
Accrued expenses		30,960		34,018
Accrued income taxes		8,084		1,165
Note payable and current maturities of capital leases		2,916		63,461
Deferred revenues		189,579		237,557
		<hr/>		<hr/>
Total current liabilities		240,709		344,407

LONG TERM LIABILITIES:

Deferred revenues		8,906		7,981
Deferred income taxes		65,310		65,066
Other long-term liabilities, net of current maturities		7,980		6,740
		<hr/>		<hr/>
Total long term liabilities		82,196		79,787
Total liabilities		322,905		424,194

STOCKHOLDERS' EQUITY

Preferred stock - \$1 par value; 500,000 shares authorized, none issued		-		-
Common stock - \$0.01 par value: 250,000,000 shares authorized;				
Shares issued at 09/30/09 were 98,613,136				
Shares issued at 06/30/09 were 98,020,796		986		980
Additional paid-in capital		309,488		298,378
Retained earnings		655,865		636,733
Less treasury stock at cost				
14,406,635 shares at 09/30/09, 14,406,635 shares at 06/30/09		(309,585)		(309,585)
		<hr/>		<hr/>
Total stockholders' equity		656,754		626,506
		<hr/>		<hr/>
Total liabilities and stockholders' equity	\$	979,659	\$	1,050,700

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  
September 30,

<u>2009</u>	<u>2008</u>
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REVENUE					
	License	\$	11,402	\$	13,294
	Support and service		155,926		151,947
	Hardware		15,003		17,857
			<u>182,331</u>		<u>183,098</u>
COST OF SALES					
	Cost of license		1,120		1,089
	Cost of support and service		95,810		96,132
	Cost of hardware		11,010		13,348
			<u>107,940</u>		<u>110,569</u>
GROSS PROFIT					
			74,391		72,529
OPERATING EXPENSES					
	Selling and marketing		12,125		13,932
	Research and development		10,148		11,546
	General and administrative		10,181		11,459
			<u>32,454</u>		<u>36,937</u>
OPERATING INCOME					
			41,937		35,592
INTEREST INCOME (EXPENSE)					
	Interest income		41		563
	Interest expense		(90)		(427)
			<u>(49)</u>		<u>136</u>
INCOME BEFORE INCOME TAXES					
			41,888		35,728
PROVISION FOR INCOME TAXES					
			<u>15,614</u>		<u>13,219</u>
NET INCOME					
		\$	26,274	\$	22,509
Diluted net income per share					
		\$	0.31	\$	0.26
Diluted weighted average shares outstanding					
			84,823		86,622
Basic net income per share					
		\$	0.31	\$	0.26
Basic weighted average shares outstanding					
			83,870		85,744

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 September 30,	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 26,274	\$ 22,509
Adjustments to reconcile net income from operations to cash from operating activities:		
Depreciation	8,967	9,841
Amortization	6,862	5,986
Deferred income taxes	244	1,183
Expense for stock-based compensation	640	392
Loss on disposal of property and equipment	139	-
Other, net	-	(4)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	70,878	87,989
Prepaid expenses, prepaid cost of product, and other	(7,958)	(10,485)
Accounts payable	964	151
Accrued expenses	(3,744)	(8,069)
Income taxes	9,444	(14,946)
Deferred revenues	(47,053)	(35,395)
Net cash from operating activities	65,657	59,152
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payment for acquisitions, net of cash acquired	-	(3,012)
Capital expenditures	(11,977)	(4,241)
Proceeds from sale of property and equipment	25	7
Computer software developed	(5,347)	(6,033)
Proceeds from investments	1,000	1,000
Purchase of investments	(1,000)	(996)
Other, net	-	12
Net cash from investing activities	(17,299)	(13,263)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under lines of credit	1,621	10,037
Repayments under lines of credit	(62,166)	(60,076)
Purchase of treasury stock	-	(31,328)
Dividends paid	(7,143)	(6,388)
Excess tax benefits from stock-based compensation	192	242
Proceeds from issuance of common stock upon exercise of		

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stock options	10,043	950
Minimum tax withholding payments related to option exercises	(1,622)	(538)
Proceeds from sale of common stock, net	484	482
	<u>          </u>	<u>          </u>
Net cash from financing activities	(58,591)	(86,619)
	<u>          </u>	<u>          </u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (10,233)	\$ (40,730)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 118,251	\$ 65,565
	<u>          </u>	<u>          </u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 108,018	\$ 24,835

Net cash paid for income taxes was \$5,746 and \$27,297 for the three months ended September 30, 2009 and 2008, respectively. The Company paid interest of \$135 and \$585 for the three months ended September 30, 2009 and 2008, respectively. Capital expenditures exclude property and equipment additions totaling \$694 and \$781 that were in accrued liabilities or were acquired via capital lease during the three months ended September 30, 2009 and 2008, respectively.

See notes to condensed consolidated financial statements

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Per Share Amounts)  
(Unaudited)

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF THE COMPANY

Jack Henry & Associates, Inc. and Subsidiaries ("JHA" or the "Company") is a leading provider of integrated computer systems and services that has developed and acquired a number of banking and credit union software systems. The Company's revenues are predominately earned by marketing those systems to financial institutions nationwide together with computer equipment (hardware) and by providing the conversion and software implementation services for financial institutions to utilize JHA software systems, and by providing other related services. JHA also provides continuing support and services to customers using in-house or outsourced systems.

CONSOLIDATION

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values for held-to-maturity securities are based on quoted market prices. For all other financial instruments, including amounts receivable or payable and short-term and long-term borrowings, fair values approximate carrying value, based on the short-term nature of the assets and liabilities and the variability of the interest rates on the

borrowings.

STOCK-BASED COMPENSATION

For the three months ended September 30, 2009 and 2008, there was \$640 and \$392, respectively, in compensation expense from equity-based awards.

Changes in stock options outstanding and exercisable are as follows:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding July 1, 2009			3,760
			\$
			17.75
Granted			-
			-
Forfeited			-
			-
Exercised			(631)



16.44

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Outstanding September 30, 2009

3,129

\$

18.01

\$

19,193

Exercisable September 30, 2009

3,107

\$

17.98

\$

19,133

As of September 30, 2009, there was \$61 of total unrecognized compensation cost related to outstanding options that is expected to be recognized over a weighted-average period of 0.75 years. The weighted-average remaining contractual term on options currently exercisable as of September 30, 2009 was 2.31 years.

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

The following table summarizes non-vested share awards as of September 30, 2009, as well as activity for the three months then ended:

Shares
--------

Weighted Average Grant Date Fair Value
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Non-vested shares at July 1, 2009

	267
	\$
	21.66
Granted	
	127
	22.68
Vested	
	(19)
	22.36
Forfeited	
	-
	-

Non-vested shares at September 30, 2009

375  
\$  
21.97

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

At September 30, 2009, there was \$5,973 of compensation expense that has yet to be recognized related to non-vested restricted stock share awards, which will be recognized over a weighted-average period of 2.83 years.

#### INCOME TAXES

At September 30, 2009, the Company had \$6,561 of gross unrecognized tax benefits, \$5,531 of which, if recognized would affect our effective tax rate. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. As of September 30, 2009, we had accrued interest and penalties of \$811 related to uncertain tax positions.

During the fiscal year ended June 30, 2008, the Internal Revenue Service concluded its examination of the Company's U.S. federal income tax returns for fiscal years ended June 2005 through 2006. However, the U.S. federal and state

income tax returns for June 30, 2006 and all subsequent fiscal years still remain subject to examination as of September 30, 2009 under statute of limitations rules. We anticipate potential changes resulting from the expiration of statutes of limitations of up to \$932 could reduce the unrecognized tax benefits balance within twelve months of September 30, 2009.

#### COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended September 30, 2009 and 2008 equals the Company's net income.

#### COMMON STOCK

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or short-term borrowings on its existing credit facility. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2009 and September 30, 2009, there were 14,407 shares in treasury stock and the Company had the remaining authority to repurchase up to 5,584 additional shares. The total cost of treasury shares at September 30, 2009 is \$309,585.

#### 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, 2009. 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, 2009.

In the opinion of management of the Company, the accompanying condensed consolidated financial statements reflect all adjustments necessary (consisting solely of normal recurring adjustments) to present fairly the financial position of the Company as of September 30, 2009, and the results of its operations and its cash flows for the three-month periods ended September 30, 2009 and 2008.

The results of operations for the period ended September 30, 2009 are not necessarily indicative of the results to be expected for the entire year.

#### NOTE 2. ADDITIONAL INTERIM FOOTNOTE INFORMATION

The following additional information is provided to update the notes to the Company's annual consolidated financial statements for the developments during the three months ended September 30, 2009.

#### DEBT

The Company renewed a bank credit line on March 7, 2009 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (3.25% at September 30, 2009). The credit line expires March 7, 2010 and is secured by \$1,000 of investments. At September 30, 2009, no amount was outstanding.

The Company obtained a bank credit line on April 28, 2008 which provides for funding of up to \$5,000 and bears interest at the bank's prime rate less 1% (2.25%

at September 30, 2009). The credit line matures on April 29, 2010. At September 30, 2009, no amount was outstanding.

An unsecured revolving bank credit facility allows short-term borrowings of up to \$150,000 which may be increased by the Company at any time until maturity to \$225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate), plus an applicable percentage in each case determined by the Company's leverage ratio. The unsecured revolving credit line terminates May 31, 2012. At June 30, 2009, the revolving bank credit facility balance was \$60,000. At September 30, 2009, there was no balance outstanding. This credit line is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of September 30, 2009, the Company was in compliance with all covenants.

The Company has entered into various capital lease obligations for the use of certain computer equipment. Included in property and equipment are related assets of \$6,907, less accumulated depreciation of \$1,235. At September 30, 2009, \$2,916 was outstanding, all of which will be maturing within the next twelve months.

### COMMITMENTS AND CONTINGENCIES

For fiscal 2010, the Board of Directors approved bonus plans for its executive officers and general managers for the current fiscal year. Under the plan, bonuses may be paid following the end of the current fiscal year based upon achievement of operating income targets and upon attainment of a superior return on average assets in comparison with a group of peer companies selected by the Compensation Committee. For general managers, one half of each manager's bonus is contingent upon meeting individualized business unit objectives established by the executive officer to whom the general manager reports.

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

### NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued Statement on Financial Accounting Standards ("SFAS") No. 141(R), *"Business Combinations,"* which replaces SFAS No. 141 and has since been incorporated in to the Accounting Standards Codification ("ASC") as ASC 805-10. ASC 805-10 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquired entity, and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users of the financial statements to evaluate the nature and financial effects of the business combination. Relative to SFAS 141(R), the FASB issued FSP 141(R)-1 on April 1, 2009, which is now incorporated in ASC 805-20. ASC 805-20 eliminates the requirement under FAS 141(R) to record assets or liabilities at the acquisition date for noncontractual contingencies at fair value where it is deemed "more-likely-than-not" that an asset or liability would result. Under ASC 805-20, such assets and liabilities would only need to be recorded where the fair value can be determined during the measurement period or where it is probable that an asset or liability exists at the acquisition date and the amount of fair value can be reasonably determined. ASC 805-10 was effective for the Company on July 1, 2009. ASC 805-10 will have an impact on the Company's accounting for business combinations on a prospective basis; however, the future materiality of that impact cannot be determined at this time.

In April 2008, the FASB issued FSP FAS 142-3, "*Determination of the Useful Life of Intangible Assets*", which is now incorporated into ASC 350-30. This position amends Codification Topic 350 regarding the factors that should be considered in developing the useful lives for intangible assets with renewal or extension provisions. ASC 350-30 requires an entity to consider its own historical experience in renewing or extending similar arrangements, regardless of whether those arrangements have explicit renewal or extension provisions, when determining the useful life of an intangible asset. In the absence of such experience, an entity shall consider the assumptions that market participants would use about renewal or extension, adjusted for entity-specific factors. ASC 350-30 also requires an entity to disclose information regarding the extent to which the expected future cash flows associated with an intangible asset are affected by the entity's intent and/or ability to renew or extend the arrangement. ASC 350-30 is effective for qualifying intangible assets acquired by the Company on or after July 1, 2009. The application of FSP 142-3 did not have a material impact on the Company's financial statements upon adoption; however, it could impact future transactions entered into by the Company.

In June 2009, the FASB issued SFAS No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162,*" which is now incorporated as ASC 105-10 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. ASC 105-10 explicitly recognizes rules and interpretive releases of the SEC under federal securities laws as authoritative GAAP for SEC registrants. ASC 105-10 was effective for the Company as of the beginning of fiscal 2010, but it did not have a material impact on the Company's financial statements.

#### NOTE 4. EARNINGS PER SHARE

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

	Three Months Ended September 30,
	<u>2009</u>
	<u>2008</u>
Net Income	\$ 26,274
	\$ 22,509
Common share information:	
Weighted average shares outstanding for basic EPS	83,870 85,744
Dilutive effect of stock options and restricted stock	

	953
	878
<hr/>	
<hr/>	
Shares for diluted EPS	
	84,823
	86,622
Basic Earnings per Share	
	\$
	0.31
	\$
	0.26
Diluted Earnings per Share	
	\$
	0.31
	\$
	0.26

Per share information is based on the weighted average number of common shares outstanding for the three month periods ended September 30, 2009 and 2008. Stock options have been included in the calculation of income per share to the extent they are dilutive. Anti-dilutive stock options to purchase approximately 670 and 1,058 shares for the three-month periods ended September 30, 2009 and 2008, 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

September 30, 2009

September 30, 2008

Bank

Credit  
Union

Total

Bank

Credit  
Union

Total

REVENUE

License

\$

8,540

\$

2,862

\$

11,402

\$

10,284

\$

3,010

\$

13,294

Support and service

	130,990
	24,936
	155,926
	126,325
	25,622
	151,947
Hardware	
	10,896
	4,107
	15,003
	13,313
	4,544
	17,857
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
<hr/>	
Total	
	150,426
	31,905
	182,331
	149,922
	33,176
	183,098
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COST OF SALES

Cost of license

932

188

1,120

896

193

1,089

Cost of support and service

79,450

16,360

95,810

79,976

16,156

96,132

Cost of hardware

7,990

3,020

11,010

9,847

3,501

13,348

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Total

88,372

19,568

107,940

90,719

19,850

110,569

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GROSS PROFIT

\$

62,054

\$

12,337

\$

74,391

\$

59,203

\$

13,326

\$

72,529

September 30,

June 30,

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	<u>2009</u>
	<u>2009</u>
Property and equipment, net	
Bank systems and services	\$
	212,433
	\$
	208,488
Credit Union systems and services	
	28,978
	29,290
<hr/>	
Total	
	\$
	241,411
	\$
	237,778
Identified intangible assets, net	
Bank systems and services	\$
	383,217
	\$
	389,252
Credit Union systems and services	
	49,703

45,276

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Total

\$

432,920

\$

434,528

## NOTE 6. SUBSEQUENT EVENTS

In accordance with generally accepted accounting principles, the Company has evaluated any significant events occurring from the date of these financial statements through November 6, 2009 the date they were issued. The effects of any such events upon conditions existing as of the balance sheet date have been reflected within the financial statements to the extent the effects were material. Any significant events occurring after the balance sheet date that do not relate to conditions existing as of that date are disclosed below.

On August 17, 2009, the Company announced that it had entered into a definitive agreement to acquire Goldleaf Financial Solutions, Inc. ("Goldleaf"), a provider of integrated technology-based solutions designed to improve the performance of financial institutions. The transaction was completed on October 1, 2009. Goldleaf's shareholders received \$0.98 per share in cash in exchange for their shares, which resulted in a total cash outlay of \$19,085 for those shares. In addition, the Company retired certain of Goldleaf's outstanding debt and accrued interest obligations and made other payments at closing totaling approximately \$48,000 at closing.

On October 29, 2009, the Company announced the acquisition of PEMCO Technology Services, Inc., one of the nation's leading providers of payment processing solutions primarily for the credit union industry, for a net cash outlay of \$60,000.

All amounts paid for these acquisitions were funded with operating cash and borrowings against available lines of credit.

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

### RESULTS OF OPERATIONS

#### Background and Overview

We provide integrated computer systems for in-house and outsourced data processing to commercial banks, credit unions and other financial institutions. We have developed and acquired banking and credit union application software systems that we market, together with compatible computer hardware, to these financial institutions. We also perform data conversion and software implementation services 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 eight data centers in six physical locations and 12 item-processing centers located throughout the United States.

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

A detailed discussion of the major components of the results of operations for the three months ended September 30, 2009 follows. All amounts are in thousands and discussions compare the current three-month period ended, September 30, 2009, to the prior year three-month period ended September 30, 2008.

REVENUE

License Revenue

Three Months Ended

%

September 30,

Change

2009

2008

License

\$

11,402

\$

13,294

-14%

Percentage of total revenue

6%

7%

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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 reduction in license revenue for the quarter compared to the same quarter a year ago is mainly attributable to a decrease in sales of our complementary product offerings, which offset revenue growth for our core software products collectively. The complementary products with the largest decreases include PROFITstar® ALM/Budgeting, our asset/liability management and budgeting system, Yellow Hammer Fraud Detective™, our fraud detection/prevention solution, and Synergy Enterprise Content Management solution, all of which had significant revenue growth during last year's first quarter.

Another factor contributing to the decrease in license revenue is the continuing shift in demand from banks and credit unions from in-house delivery to our outsourcing services, which do not require software license agreements.

Support and Service Revenue	Three Months Ended September 30,		% Change
	<u>2009</u>	<u>2008</u>	
Support and service	\$ 155,926	\$ 151,947	+3%
Percentage of total revenue	86%	83%	
Quarter Over Quarter Change	<u>\$ Change</u>	<u>% Change</u>	
In-House Support & Other Services	\$ 228	+<1%	
EFT Support	2,551	+7%	
Outsourcing Services	2,315	+7%	
Implementation Services	(1,115)	-8%	
Total Increase	\$ 3,979		

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

There was growth in most of the support and service revenue components for the quarter ended September 30, 2009. In-house support and other services remained fairly even in comparison to prior year as gains in in-house support revenues were mostly offset by decreases in other services revenue, such as work orders and consulting. EFT support, including ATM and debit card transaction processing, online bill payment services, remote deposit capture and transaction processing services, experienced the largest dollar growth as we have seen strong growth in our bill pay and enterprise payment solutions. Outsourcing services for banks and credit unions continue to drive revenue growth as customers continue to choose outsourcing for the delivery of our solutions. We expect the trend towards outsourced product delivery to continue to benefit Outsourcing services revenue. The decrease in implementation services revenue is directly related to fewer convert/merge implementations for our bank customers due to the slowdown in the merger and acquisition activity in the current market environment.

Hardware Revenue	Three Months Ended September 30,		% Change
	<u>2009</u>	<u>2008</u>	

Hardware	\$	15,003	\$	17,857	-16%
Percentage of total revenue		8%		10%	

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

Hardware revenue decreased mainly due to a decrease in the number of hardware systems and components delivered in the current quarter compared to a year ago. Hardware revenue has been generally commensurate with the decrease in license revenue and has also been negatively impacted by the increase in outsourcing contracts, which typically do not include hardware.

## BACKLOG

Our backlog increased 9% at September 30, 2009 to \$291,200 (\$61,800 in-house and \$229,400 outsourcing) from \$266,200 (\$65,100 in-house and \$201,100 outsourcing) at September 30, 2008.

## COST OF SALES AND GROSS PROFIT

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

Cost of Sales and Gross Profit	Three Months Ended September 30,		% Change
	<u>2009</u>	<u>2008</u>	
Cost of License	\$ 1,120	\$ 1,089	+3%
Percentage of total revenue	1%	1%	
License Gross Profit	\$ 10,282	\$ 12,205	-16%
Gross Profit Margin	90%	92%	
Cost of support and service	\$ 95,810	\$ 96,132	<-1%
Percentage of total revenue	53%	53%	
Support and Service Gross Profit	\$ 60,116	\$ 55,815	+8%
Gross Profit Margin	39%	37%	
Cost of hardware	\$ 11,010	\$ 13,348	-18%
Percentage of total revenue	6%	7%	

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Hardware Gross Profit	\$	3,993	\$	4,509	-11%
Gross Profit Margin		27%		25%	
<hr/>					
TOTAL COST OF SALES	\$	107,940	\$	110,569	-2%
Percentage of total revenue		59%		60%	
TOTAL GROSS PROFIT	\$	74,391	\$	72,529	+3%
Gross Profit Margin		41%		40%	

Cost of license increased for the current quarter due to greater third party reseller agreement software vendor costs. These costs have led to gross profit margin on license revenue being lower than the prior year. We expect this impact of third party software to continue to result in license gross profit margins that are lower than in prior years as third party software becomes a larger portion of our total license revenue.

The slight decrease in cost of support and service is attributable to cost control measures undertaken by the Company during the second half of fiscal 2009, which have resulted in lower personnel costs in the current quarter than a year ago. These cost reductions have led to higher overall support and service gross profit margins.

Cost of hardware decreased due to a decrease in hardware sales. Hardware gross profit margins increased slightly over last year's quarter due to changes in sales mix.

OPERATING EXPENSES

Selling and Marketing	Three Months Ended September 30,		% Change		
	<u>2009</u>	<u>2008</u>			
Selling and marketing	\$	12,125	\$	13,932	-13%
Percentage of total revenue		7%		8%	

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

For the three months ended September 30, 2009, selling and marketing expenses decreased mainly due to decreasing personnel costs, including commission expenses. Selling and marketing expense decreased as a percentage of sales to 7% compared to the first quarter of last fiscal year at 8%.

Research and Development	Three Months Ended September 30,		% Change		
	<u>2009</u>	<u>2008</u>			
Research and development	\$	10,148	\$	11,546	-12%
Percentage of total revenue		6%		6%	



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

Research and development expenses decreased 12% over last year's first quarter primarily due to a decrease in the use of consultants and independent contractors compared to the same period a year ago and an increase in the capitalization of expenditures to on-going software development projects; however, they remained at 6% of total revenue for each period.

General and Administrative	Three Months Ended September 30,		% Change
	<u>2009</u>	<u>2008</u>	
General and administrative	\$ 10,181	\$ 11,459	-11%
Percentage of total revenue	6%	6%	

General and administrative costs include all expenses related to finance, legal, human resources, plus all administrative costs. General and administrative expense decreased for the quarter as cost control measures have resulted in lower personnel costs and reduced travel and other operating expenses. In addition, expenses related to our credit union user group meeting were down significantly due to the virtualization of that conference. Overall, our travel-related expenses were down \$1,049 from last year's first quarter primarily as a result of these changes. General and administrative expenses remained at 6% of total revenue for both periods.

### INTEREST INCOME (EXPENSE)

- Interest income for the three months ended September 30, 2009 reflects a decrease of \$522 when compared to the same period last year. Interest income decreased due to lower yields on invested balances. Interest expense decreased \$337, due to fluctuations in the average outstanding balance and interest rates on the revolving bank credit facility, which as of September 30, 2009 had no balance, compared to a balance of \$20,000 as of September 30, 2008.

### PROVISION FOR INCOME TAXES

- The provision for income taxes was \$15,614 for the three months ended September 30, 2009 compared with \$13,219 for the same period last year. As of the end of the current quarter, the rate of income taxes is estimated at 37.3% of income before income taxes compared to 37.0% as reported for the same quarter in fiscal 2009. The prior year rate does not include any impact of the Research and Experimentation Credit ("R&E Credit") since it had expired as of the end of the second quarter of fiscal 2008, but it has been included in the current year's first quarter provision. The R&E Credit is scheduled to expire on December 31, 2009, and accordingly, we are required under generally accepted accounting principles to allocate the credits generated prior to its expiration over the entire fiscal year.

### NET INCOME

- Net Income increased 17% for the three months ended September 30, 2009. For the first quarter of fiscal 2010, it was \$26,274 or \$0.31 per diluted share compared to \$22,509, or \$0.26 per diluted share in the same period last year.

### BUSINESS SEGMENT DISCUSSION

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

#### Bank Systems and Services

	Three Months Ended September 30,		Percent Change
	<u>2009</u>	<u>2008</u>	
Revenue	\$ 150,426	\$ 149,922	0%
Gross Profit	\$ 62,054	\$ 59,203	5%
Gross Profit Margin	41%	39%	

Revenue in bank systems and services remained even as 4% growth in Support and service revenue was offset by decreases in both license and hardware revenue compared to the same period a year ago. Gross profit margin increased slightly compared to the first quarter of fiscal 2009 primarily due to cost control measures undertaken by management during the second half of fiscal 2009, which decreased personnel costs and led to a slight decrease in cost of Support and service despite the growth in revenue.

#### Credit Union Systems and Services

	Three Months Ended September 30,		Percent Change
	<u>2009</u>	<u>2008</u>	
Revenue	\$ 31,906	\$ 33,176	-4%
Gross Profit	\$ 12,337	\$ 13,326	-7%
Gross Profit Margin	39%	40%	

Revenue in the credit union system and services segment experienced decreases in all components of revenue as current economic conditions have caused many of our credit union customers to delay discretionary expenditures. License revenue was down 5% overall from last year, as both core and complementary sales were down. Within the Support and service revenue line, Data center revenue was up 5% over last year, but was offset by lower consulting and work order revenue than in the previous year. Hardware revenue decreased due to sales mix and the amount of hardware shipped during the quarter. Credit union gross profit decreased 7% from the prior year, and gross profit margin dropped to 39% for the current quarter from 40% last year.

## FINANCIAL CONDITION

### Liquidity

The Company's cash and cash equivalents decreased to \$108,018 at September 30, 2009, from \$118,251 at June 30, 2009, but increased from \$24,835 at September 30, 2008. The decrease in the cash balance from June 30, 2009 is primarily due to the repayment of short term obligations.

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

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Three months ended  
September 30,

---

2009

2008

Net income

\$

26,274

\$

22,509

Non-cash expenses

16,852

17,398

Change in receivables

70,878

87,989

Change in deferred revenue

(47,053)

(35,395)

Change in other assets and liabilities

(1,294)

(33,349)

---

\$

65,657

\$

59,152

During the first quarter of fiscal 2010, as is the case during the first quarter of each fiscal year, the Company's cash flow from operations benefited from the collection of receivables related to our annual maintenance billings which are issued during the fourth quarter each year. In the current quarter, those inflows were partially offset by cash outflows related to an increase in prepaid expenses and a decrease in accrued expenses.

Cash used in investing activities for the current quarter totaled \$17,299. The largest use of cash was capital expenditure for facilities and equipment, including the on-going construction of our new Springfield, Missouri facility, totaling \$11,977. Other major uses of cash included \$5,347 for the development of software. In the first quarter of fiscal 2009, cash used in investing activities totaled \$13,263. The largest use of cash was for software development projects totaling \$6,033. Other major uses of cash included \$4,241 of capital expenditures for facilities and equipment and \$3,012 in acquisition-related payments.

Financing activities used cash of \$58,591 during the current quarter. There were net cash outflows to repay short-term borrowings on our lines of credit of \$60,545 and \$7,143 was used to fund dividends paid to stockholders. Cash used was partially offset by \$9,097 proceeds from the issuance of stock for stock options exercised, excess tax benefits from stock-based compensation and the sale of common stock (through the employee stock purchase plan). In the first quarter of last year, financing activities used cash of \$86,619. There were net cash outflows to repay short-term borrowings on our lines of credit of \$50,039; \$31,328 was used to purchase treasury stock, and \$6,388 was used to fund dividends paid to stockholders. Cash used was partially offset by \$1,136 proceeds from the issuance of stock for stock options exercised, excess tax benefits from stock-based compensation and the sale of common stock.

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

#### Capital Requirements and Resources

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$11,977 and \$4,241 for the three-month periods ended September 30, 2009 and 2008, respectively, were made primarily for additional equipment, the on-going construction of a new facility in Springfield, Missouri and the improvement of other existing facilities. These additions were funded from cash generated by operations. Total consolidated capital expenditures for the Company are not expected to exceed \$65,000 for fiscal year 2010.

The Company renewed a bank credit line on March 7, 2009 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (3.25% at September 30, 2009). The credit line expires March 7, 2010 and is secured by \$1,000 of investments. At September 30, 2009, no amount was outstanding.

The Company renewed an unsecured bank credit line on April 28, 2008 which provides for funding of up to \$5,000 and bears interest at the bank's prime rate less 1% (2.25%

at September 30, 2009). The credit line matures on April 29, 2010. At September 30, 2009, no amount was outstanding.

An unsecured revolving bank credit facility allows short-term borrowings of up to \$150,000 which may be increased by the Company at any time until maturity to \$225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate), plus an applicable percentage in each case determined by the Company's leverage ratio. The unsecured

revolving credit line terminates May 31, 2012. At June 30, 2009, the revolving bank credit facility balance was \$60,000. At September 30, 2009, there was no balance outstanding. This credit line is subject to various financial covenants that require the Company to maintain certain financial ratios as defined in the agreement. As of September 30, 2009, the Company was in compliance with all covenants.

The Company has entered into various capital lease obligations for the use of certain computer equipment. Included in property and equipment are related assets of \$6,907, less accumulated depreciation of \$1,235. At September 30, 2009, \$2,916 was outstanding, all of which will be maturing within the next twelve months.

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, 2009 and September 30, 2009, there were 14,407 shares in treasury stock and the Company had the remaining authority to repurchase up to 5,584 additional shares. The total cost of treasury shares at September 30, 2009 is \$309,585.

Subsequent to September 30, 2009, the Company acquired the outstanding stock of Goldleaf Financial Solutions, Inc. and, at closing, eliminated several of that entity's debt obligations. In addition, the Company also acquired PEMCO Technology Services, Inc. The Company's combined net cash outlay at closing for these acquisitions totaled over \$127,000. These amounts were funded through available operating cash and borrowings of \$60,000 on existing lines of credit.

#### 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, 2009.

#### Forward Looking Statements

The Management's Discussion and Analysis of Results of Operations and Financial Condition and other portions of this report contain forward-looking statements within the meaning of federal securities laws. Actual results are subject to risks and uncertainties, including both those specific to the Company and those specific to the industry, which could cause results to differ materially from those contemplated. The risks and uncertainties include, but are not limited to, the matters detailed at Risk Factors in its Annual Report on Form 10-K for the fiscal year ended June 30, 2009. Undue reliance should not be placed on the forward-looking statements. The Company does not undertake any obligation to publicly update any forward-looking statements.

#### CONCLUSION

Even in this current challenging market, the Company's results of operations and its financial position continue to be solid, with increased gross profit and net income for the three months ended September 30, 2009, compared to the same period a year ago. We continue to be cautiously optimistic as we see the increases in our recurring revenue and the increases in our backlog of contracts for products and services yet to be delivered. Our overall results reflect 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 challenges and opportunities as well as those which will arise when the economic rebound occurs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk refers to the risk that a change in the level of one or more market prices, interest rates, indices, volatilities, correlations or other market factors such as liquidity, will result in losses for a certain financial instrument or group of financial instruments. We are currently exposed to credit risk on credit extended to customers and interest risk on investments in U.S. government securities. We actively monitor these risks through a variety of controlled procedures involving senior management. We do not currently use any derivative financial instruments. Based on the controls in place, credit worthiness of the customer base and the relative size of these financial instruments, we believe the risk associated with these exposures will not have a material adverse effect on our consolidated financial position or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of our management, including our Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. For this purpose, disclosure controls and procedures include controls and procedures designed to ensure that information that is required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ITEM 6. EXHIBITS

- 10.39 Revised form of Restricted Stock Agreement (executives).
  - 31.1 Certification of the Chief Executive Officer dated November 6, 2009.
  - 31.2 Certification of the Chief Financial Officer dated November 6, 2009.
  - 32.1 Written Statement of the Chief Executive Officer dated November 6, 2009.
  - 32.2 Written Statement of the Chief Financial Officer dated November 6, 2009.
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SIGNATURES

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

JACK HENRY & ASSOCIATES, INC.

/s/ John F. Prim

Date: November 6, 2009

John F. Prim

Chief Executive Officer and Director

Date: November 6, 2009

/s/ Kevin D. Williams

Kevin D. Williams

Chief Financial Officer and Treasurer