

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

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
May 10, 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 March 31, 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 [ ]

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

Yes [ ] No [X]

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APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of May 1, 2006, Registrant has 92,678,455 shares of common stock  
outstanding (\$0.01 par value)

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

|        | March 31,<br>2006 | June 30,<br>2005 |
|--------|-------------------|------------------|
|        | -----             | -----            |
| ASSETS |                   |                  |

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|  |            |            |
|--|------------|------------|
| CURRENT ASSETS:  |            |            |
| Cash and cash equivalents  | \$ 38,805  | \$ 11,608  |
| Investments, at amortized cost   | 2,109      | 993        |
| Receivables  | 99,717     | 209,922    |
| Prepaid expenses and other   | 15,900     | 14,986     |
| Prepaid cost of product  | 14,340     | 20,439     |
| Deferred income taxes  | 2,650      | 2,345      |
|  | -----      | -----      |
| Total current assets   | 173,521    | 260,293    |
| PROPERTY AND EQUIPMENT, net  | 250,876    | 243,191    |
| OTHER ASSETS:  |            |            |
| Prepaid cost of product  | 14,753     | 10,413     |
| Computer software, net of amortization   | 40,496     | 29,488     |
| Other non-current assets   | 8,452      | 6,868      |
| Customer relationships, net of amortization  | 64,824     | 68,475     |
| Trade names  | 4,010      | 4,010      |
| Goodwill   | 212,442    | 191,415    |
|  | -----      | -----      |
| Total other assets   | 344,977    | 310,669    |
| Total assets   | \$ 769,374 | \$ 814,153 |
|  | =====      | =====      |
| LIABILITIES AND STOCKHOLDERS' EQUITY   |            |            |
| CURRENT LIABILITIES:   |            |            |
| Accounts payable   | \$ 6,255   | \$ 15,895  |
| Accrued expenses   | 21,457     | 24,844     |
| Accrued income taxes   | 360        | 3,239      |
| Note payable   | 25,000     | 45,000     |
| Deferred revenues  | 72,664     | 157,605    |
|  | -----      | -----      |
| Total current liabilities  | 125,736    | 246,583    |
| LONG TERM LIABILITIES:   |            |            |
| Deferred revenues  | 19,015     | 13,331     |
| Deferred income taxes  | 44,725     | 37,085     |
|  | -----      | -----      |
| Total long term liabilities  | 63,740     | 50,416     |
| Total liabilities  | 189,476    | 296,999    |
| 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 03/31/06 were 93,717,101  |            |            |
| Shares issued at 06/30/05 were 92,050,778  | 937        | 920        |
| Additional paid-in capital   | 219,948    | 195,878    |
| Retained earnings  | 381,541    | 330,308    |
| Less treasury stock at cost 1,240,500 shares at 03/31/06, 553,300 shares at 06/30/05 | (22,528)   | (9,952)    |
|  | -----      | -----      |
| Total stockholders' equity   | 579,898    | 517,154    |
| Total liabilities and stockholders' equity   | \$ 769,374 | \$ 814,153 |
|  | =====      | =====      |

See notes to condensed consolidated financial statements

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

|  | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|--------------------------------|-----------|
|  | 2006                            | 2005      | 2006                           | 2005      |
| REVENUE  |                                 |           |                                |           |
| License  | \$ 20,566                       | \$ 20,943 | \$ 58,310                      | \$ 62,642 |
| Support and service                            | 106,083                         | 92,509    | 312,008                        | 263,883   |
| Hardware                                       | 18,846                          | 20,930    | 59,577                         | 67,913    |
| Total  | 145,495                         | 134,382   | 429,895                        | 394,438   |
| COST OF SALES                                  |                                 |           |                                |           |
| Cost of license                                | 222                             | 1,085     | 2,134                          | 4,428     |
| Cost of support and service                    | 67,962                          | 61,436    | 198,555                        | 178,412   |
| Cost of hardware                               | 13,629                          | 14,584    | 43,486                         | 49,010    |
| Total  | 81,813                          | 77,105    | 244,175                        | 231,850   |
| GROSS PROFIT                                   | 63,682                          | 57,277    | 185,720                        | 162,588   |
| OPERATING EXPENSES                             |                                 |           |                                |           |
| Selling and marketing                          | 12,292                          | 11,598    | 36,032                         | 34,250    |
| Research and development                       | 8,435                           | 7,738     | 23,187                         | 20,621    |
| General and administrative                     | 8,239                           | 6,915     | 27,174                         | 22,507    |
| Total  | 28,966                          | 26,251    | 86,393                         | 77,378    |
| OPERATING INCOME                               | 34,716                          | 31,026    | 99,327                         | 85,210    |
| INTEREST INCOME (EXPENSE)                      |                                 |           |                                |           |
| Interest income                                | 731                             | 171       | 1,599                          | 989       |
| Interest expense                               | (590)                           | (110)     | (897)                          | (127)     |
| Total  | 141                             | 61        | 702                            | 862       |
| INCOME BEFORE INCOME TAXES                     | 34,857                          | 31,087    | 100,029                        | 86,072    |
| PROVISION FOR INCOME TAXES                     | 11,397                          | 11,658    | 35,511                         | 32,277    |
| NET INCOME                                     | \$ 23,460                       | \$ 19,429 | \$ 64,518                      | \$ 53,795 |
| Diluted net income per share                   | \$ 0.25                         | \$ 0.21   | \$ 0.69                        | \$ 0.58   |
| Diluted weighted average<br>shares outstanding | 94,390                          | 93,421    | 94,008                         | 92,954    |
| Basic net income per share                     | \$ 0.26                         | \$ 0.21   | \$ 0.70                        | \$ 0.59   |
| Basic weighted average<br>shares outstanding   | 91,952                          | 91,212    | 91,622                         | 90,716    |

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See notes to condensed consolidated financial statements

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

|   | Nine Months Ended<br>March 31, |           |
|---|--------------------------------|-----------|
|   | 2006                           | 2005      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                |           |
| Net Income  | \$ 64,518                      | \$ 53,795 |
| Adjustments to reconcile net income from operations to cash from operating activities:  |                                |           |
| Depreciation  | 24,689                         | 21,900    |
| Amortization  | 7,843                          | 6,548     |
| Deferred income taxes   | 5,777                          | 5,045     |
| Expense for stock-based compensation  | 364                            | -         |
| Loss on disposal of property and equipment  | 108                            | 1,016     |
| Changes in operating assets and liabilities, net of acquisitions:                       |                                |           |
| Receivables   | 110,872                        | 94,879    |
| Prepaid expenses, prepaid cost of product, and other                                    | (716)                          | 382       |
| Accounts payable  | (9,906)                        | (2,819)   |
| Accrued expenses  | (4,105)                        | (5,354)   |
| Income taxes (including tax benefit of \$3,463 from exercise of stock options for 2005) | (2,905)                        | 1,380     |
| Deferred revenues   | (83,155)                       | (71,656)  |
| Net cash from operating activities  | 113,384                        | 105,116   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                |           |
| Payment for acquisitions, net   | (20,744)                       | (119,616) |
| Capital expenditures  | (32,228)                       | (33,428)  |
| Computer software developed   | (11,908)                       | (4,607)   |
| Proceeds from investments   | 3,327                          | 4,000     |
| Purchase of investments   | (2,746)                        | (3,983)   |
| Proceeds from sale of property and equipment  | 29                             | 150       |
| Other, net  | 223                            | 105       |
| Net cash from investing activities  | (64,047)                       | (157,379) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                |           |
| Note payable, net   | (20,000)                       | 14,000    |
| Purchase of treasury stock  | (12,576)                       | -         |
| Dividends paid  | (13,285)                       | (11,346)  |
| Excess tax benefits from stock-based compensation                                       | 6,471                          | -         |
| Proceeds from issuance of common stock upon exercise of stock options                   | 16,711                         | 11,238    |
| Proceeds from sale of common stock, net   | 539                            | 565       |
| Net cash from financing activities  | (22,140)                       | 14,457    |

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|  |           |             |
|--|-----------|-------------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS      | \$ 27,197 | \$ (37,806) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | \$ 11,608 | \$ 53,758   |
| CASH AND CASH EQUIVALENTS, END OF PERIOD       | \$ 38,805 | \$ 15,952   |
|  | =====     | =====       |

Net cash paid for income taxes was \$25,600 and \$25,865 for the nine months ended March 31, 2006 and 2005, respectively. The Company paid interest of \$908 and \$127 for the nine months ended March 31, 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 JHA software systems. JHA 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

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (R), "Share-Based Payment", ("SFAS 123(R)"), a revision of SFAS 123. SFAS 123 (R) supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and amends SFAS No. 95 "Statement of Cash Flows". SFAS 123(R) is similar to the approach described in SFAS 123 except that SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of income, in lieu of pro forma disclosure. Also, SFAS 123 (R) requires companies to calculate a pool of income tax benefits ("APIC pool") that were previously recorded in additional paid-in capital and are available to absorb future income tax benefit deficiencies that can result from the exercise or maturity of stock awards. SFAS 123 (R) is effective for fiscal periods beginning after June 15, 2005. The Company adopted the

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provisions of SFAS 123 (R) as of July 1, 2005, the first day of fiscal 2006 and is using the modified-prospective transition method with the Black-Scholes model for estimating the fair value of equity compensation. Prior interim periods and fiscal years do not reflect any restated amounts. Further, the Company has calculated its APIC pool based on the actual income tax benefits received from exercises and maturities of stock awards granted after the effective date of SFAS No. 123 using the long method.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment" that provided additional guidance to public companies relating to share-based payment transactions and the implementation of SFAS 123(R), including guidance regarding valuation methods and related assumptions, classification of compensation expense and income tax effects of share-based compensation.

On June 29, 2005, the Board of Directors approved the immediate vesting of all stock options previously granted under the 1996 Stock Option Plan ("1996 SOP") that had exercise prices higher than the market price of the Company's stock on such date. As a result of this action, the vesting of 201,925 options was accelerated by an average of 15 months. No other changes to these options were made. The weighted average exercise price of these accelerated options was \$21.15, and exercise prices of the affected options ranged from \$18.64 to \$25.00. The accelerated options constitute only 2.1% of the company's outstanding options. No options held by any directors or executive officers of the Company were accelerated or affected in any manner by this action.

The purpose of accelerating vesting of the options was to enable the Company to reduce the impact of recognizing future compensation expense associated with these options upon adoption of SFAS 123(R). Commencing with the Company's fiscal year that began July 1, 2005, SFAS 123(R) requires that the Company recognize compensation expense equal to the fair value of equity-based compensation awards over the vesting period of each such award. The aggregate pre-tax expense for the shares subject to acceleration that, absent the acceleration of vesting, would have been reflected in the Company's consolidated financial statements beginning in fiscal 2006 is estimated to be a total of approximately \$802 (approximately \$510 in fiscal 2006, approximately \$185 in fiscal 2007, approximately \$89 in fiscal 2008 and approximately \$18 in fiscal 2009).

For the three and nine months ended March 31, 2006, there was \$107 and \$364, respectively, in compensation expense from equity-based awards. As of March 31, 2006, no compensation expense from equity-based awards has been capitalized. The adoption of SFAS 123 (R) did not materially impact the Company's consolidated financial statements. The following table illustrates the effect on net income and net income per share for the nine months of fiscal 2005 had the Company accounted for its stock-based awards under the fair value method of SFAS 123.

|  | Three Months Ended<br>March 31,<br>2005 | Nine Months Ended<br>March 31,<br>2005 |
|--|---|--|
|  | -----                                   | -----                                  |
| Net income, as reported  | \$ 19,429                               | \$ 53,795                              |
| Deduct: Total stock-based employee<br>compensation expense determined<br>under fair value based method for<br>all awards, net of related tax effects | 295                                     | 900                                    |
|  | -----                                   | -----                                  |
| Pro forma net income   | \$ 19,134                               | \$ 52,895                              |
|  | =====                                   | =====                                  |

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|                              |    |      |         |
|------------------------------|----|------|---------|
| Diluted net income per share |    |      |         |
| As reported                  | \$ | 0.21 | \$ 0.58 |
| Pro forma                    | \$ | 0.20 | \$ 0.57 |
| Basic net income per share   |    |      |         |
| As reported                  | \$ | 0.21 | \$ 0.59 |
| Pro forma                    | \$ | 0.21 | \$ 0.58 |

If the Company had adopted SFAS 123(R) for fiscal year 2005, net cash from financing activities would have been increased by \$3,463 for the nine months ended March 31, 2005, and operating activities would have decreased by the \$3,463 for the same period.

The Company currently can issue options under two stock option plans: the 1996 Stock Option Plan ("1996 SOP") and the Non-Qualified Stock Option Plan ("NSOP").

### 1996 SOP

The 1996 SOP was adopted by the Company on October 29, 1996, for its employees. Terms and vesting periods of the options are determined by the Compensation Committee of the Board of Directors when granted and for options outstanding include vesting periods up to four years. Shares of common stock are reserved for issuance under this plan at the time of each grant, which must be at or above fair market value of the stock at the grant date. The options terminate 30 days after termination of employment, three months after retirement, one year after death or 10 years after grant. In October 2002, the stockholders approved an increase in the number of stock options available from 13.0 million to 18.0 million shares.

On April 11, 2003, the Company granted approximately 3,670,000 stock options to approximately 2,100 full time employees, or 94% of all full time employees as of that date. The options were issued at the exercise price of \$10.84 per share, which represented the fair market value of the stock as of that date and vest in two equal portions based on stock price performance or on specific dates. The two portions vested and became fully exercisable when the Company's common stock achieved a closing market price of 125% or more and 150% or more, respectively, of the exercise price for 10 consecutive trading days. Such options fully vested during the first quarter of fiscal 2004. As of June 30, 2005, there were 2,344,533 shares available for future grants under the plan from the 18,000,000 shares approved by the stockholders.

On June 29, 2005, the Board of Directors approved the immediate vesting of all stock options previously granted under the 1996 SOP that had exercise prices higher than the market price on such date.

### NSOP

The NSOP was adopted by the Company on October 31, 1995, for its outside directors. Options are exercisable beginning six months after grant at an exercise price equal to 100% of the fair market value of the stock at the grant date. The options terminate upon surrender of the option, upon the expiration of one year following notification of a deceased optionee, or 10 years after grant. 1,200,000 shares of common stock have been reserved for issuance under this plan with a maximum of 300,000 for each director. As of June 30, 2005, there were 445,833 shares available for future grants under the plan. In November 2005, 40,000 shares were granted to the outside directors and are all still outstanding as of March 31, 2006.

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Changes in stock options outstanding and exercisable are as follows:

|                            | Number of<br>Shares | Weighted Average<br>Exercise Price | Aggregate<br>Intrinsic<br>Value as of<br>March 31, |
|----------------------------|---------------------|------------------------------------|--|
|                            |                     |                                    |  |
| Outstanding July 1, 2005   | 9,766,397           | \$14.55                            |  |
| Granted                    | 40,000              | 18.47                              |  |
| Forfeited or expired       | (181,716)           | 21.15                              |  |
| Exercised                  | (1,641,363)         | 10.16                              |  |
|                            |                     |                                    |  |
| Outstanding March 31, 2006 | 7,983,318           | \$15.33                            | \$62,850   |
|                            |                     |                                    |  |
| Exercisable March 31, 2006 | 7,827,500           | \$15.28                            | \$62,049   |
|                            |                     |                                    |  |

Following is an analysis of stock options outstanding and exercisable as of March 31, 2006:

| Range of<br>Exercise Prices | Shares      |             | Weighted-Average<br>Remaining<br>Contractual<br>Life in Years | Weighted-Average<br>Exercise Price |             |
|-----------------------------|-------------|-------------|---|------------------------------------|-------------|
|                             | Outstanding | Exercisable | Outstanding   | Outstanding                        | Exercisable |
| \$ 6.03 - \$10.75           | 1,515,134   | 1,515,134   | 2.34  | \$ 8.15                            | \$ 8.15     |
| \$10.76 - \$10.84           | 1,457,857   | 1,457,857   | 7.03  | 10.84                              | 10.84       |
| \$10.85 - \$16.49           | 241,450     | 227,210     | 4.40  | 12.07                              | 11.95       |
| \$16.50 - \$16.88           | 2,896,410   | 2,896,410   | 4.01  | 16.88                              | 16.88       |
| \$16.89 - \$25.65           | 1,433,467   | 1,291,889   | 5.98  | 21.11                              | 21.44       |
| \$25.66 - \$31.00           | 439,000     | 439,000     | 5.06  | 27.70                              | 27.70       |
| \$ 6.03 - \$31.00           | 7,983,318   | 7,827,500   | 4.67  | \$15.33                            | \$15.28     |

No options were granted in the quarter ended March 31, 2006. The weighted average fair value of options granted was \$8.42 for the three months ended March 31, 2005. For the nine months ended March 31, 2006 and 2005, the weighted average fair value of options granted was, \$10.13 and \$6.97, respectively, using the Black-Scholes option pricing model. The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 were \$11,484 and \$4,609, respectively. While the total intrinsic value of options exercised during the nine months ended March 31, 2006 and 2005 was \$17,488 and \$9,211, respectively.

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

|                               | Three Months Ended<br>March 31, |      | Nine Months Ended<br>March 31, |      |
|-------------------------------|---------------------------------|------|--------------------------------|------|
|                               | 2006                            | 2005 | 2006                           | 2005 |
| Weighted Average Assumptions: |                                 |      |                                |      |
| Expected life (years)         | no grants                       | 4.23 | 7.65                           | 3.53 |

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|                         |        |       |       |       |
|-------------------------|--------|-------|-------|-------|
| Volatility              | during | 48%   | 42%   | 49%   |
| Risk free interest rate | this   | 3.6%  | 4.4%  | 2.9%  |
| Dividend yield          | period | 0.94% | 0.89% | 0.86% |

The option pricing model input assumptions such as expected term, expected volatility, risk-free interest rate, and dividend yield impact the fair value estimate. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions were based on or determined from external data (for example the risk-free interest rate) and other assumptions were derived from our historical experience with share-based payment arrangements (for example, volatility expected term and dividend yield). The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances.

As of March 31, 2006, there was \$838 of total unrecognized compensation cost related to nonvested share-based compensation arrangements under the plan. That cost is expected to be recognized over a weighted-average period of 3.5 years.

### COMPREHENSIVE INCOME

Comprehensive income for the three and nine-month periods ended March 31, 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, 2005, there were 553,300 shares in treasury stock and the Company had the remaining authority to repurchase up to 4,437,316 shares. During the nine months ended March 31, 2006, the Company repurchased 687,200 treasury shares for \$12,576. The total cost of treasury shares at March 31, 2006 is \$22,528. At March 31, 2006, there were 1,240,500 shares in treasury stock and the Company had the authority to repurchase up to 3,750,116 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, 2005. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in its Form 10-K for the year ended June 30, 2005.

In the opinion of management of the Company, the accompanying condensed consolidated financial statements reflect all adjustments necessary

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(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 three and nine-month periods ended March 31, 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 and nine months ended March 31, 2006.

#### ACQUISITIONS

On November 1, 2005, the Company acquired all of the capital stock of Profitstar, Inc. ("Profitstar"). Profitstar is a leading provider of asset/liability management, risk management, profitability accounting and financial planning software and related services to banks, credit unions and other financial institutions. The purchase price for Profitstar, \$19,182 paid in cash, was preliminarily allocated to the assets and liabilities acquired based on then estimated fair values at the acquisition date, resulting in an allocation of (\$4,889) to working capital, \$1,234 to deferred tax liability, \$1,871 capitalized software, \$1,420 to customer relationships, and \$19,546 to goodwill. The acquired goodwill has been allocated to the bank segment and is non-deductible for federal income tax purposes.

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

| Pro Forma (unaudited)        | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |           |
|------------------------------|---------------------------------|-----------|--------------------------------|-----------|
|                              | 2006                            | 2005      | 2006                           | 2005      |
| Revenue                      | \$145,495                       | \$136,678 | \$433,995                      | \$419,534 |
| Gross profit                 | 63,682                          | 58,818    | 188,611                        | 175,424   |
| Net Income                   | \$ 23,460                       | \$ 19,693 | \$ 64,992                      | \$ 57,398 |
| Earnings per share - diluted | \$ 0.25                         | \$ 0.21   | \$ 0.69                        | \$ 0.62   |
| Diluted Shares               | 94,390                          | 93,421    | 94,008                         | 92,954    |
| Earnings per share - basic   | \$ 0.26                         | \$ 0.22   | \$ 0.71                        | \$ 0.63   |
| Basic Shares                 | 91,952                          | 91,212    | 91,622                         | 90,716    |

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### LINES OF CREDIT

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 (7.75% at March 31, 2006). The credit line expires March 22, 2007 and is secured by \$1,000 of investments. At March 31, 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, 2005, the revolving bank credit facility balance was \$45,000. At March 31, 2006, the revolving bank credit facility balance was \$25,000.

### NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued FASB Staff Position No. 109-1, Application of FASB Statement No. 109 ("SFAS 109"), Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 ("FSP 109-1"). FSP 109-1 clarifies the manufacturer's deduction provided for under the American Jobs Creation Act of 2004 ("AJCA") should be accounted for as a special deduction in accordance with SFAS 109. Pursuant to the AJCA, the deduction for qualified production activities is effective for the Company's tax year ending June 30, 2006. The effect of the estimated deduction to be taken in the 2006 consolidated federal income tax return is expected to result in approximately \$600 of tax savings for the fiscal year ended June 30, 2006.

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 will comply with the provisions of SFAS 154, although the impact of such adoption of not determinable at this time.

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

|  | Three Months Ended<br>March 31, |        | Nine Months Ended<br>March 31, |        |
|--|---------------------------------|--------|--------------------------------|--------|
|  | 2006                            | 2005   | 2006                           | 2005   |
| Weighted average number of common shares outstanding - basic                         | 91,952                          | 91,212 | 91,622                         | 90,716 |
| Common stock equivalents   | 2,438                           | 2,209  | 2,386                          | 2,238  |
| Weighted average number of common and common equivalent shares outstanding - diluted | 94,390                          | 93,421 | 94,008                         | 92,954 |

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Per share information is based on the weighted average number of common shares outstanding for the periods ended March 31, 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 994 and 1,667 shares and 1,577 and 1,746 shares for the three and nine-month periods ended March 31, 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<br>March 31, 2006 |                 |                  | Three Months Ended<br>March 31, 2005 |                  |                  |
|-----------------------------|--------------------------------------|-----------------|------------------|--------------------------------------|------------------|------------------|
|                             | Bank                                 | Credit Union    | Total            | Bank                                 | Credit Union     | Total            |
| <b>REVENUE</b>              |                                      |                 |                  |                                      |                  |                  |
| License                     | \$ 17,360                            | \$ 3,206        | \$ 20,566        | \$ 11,614                            | \$ 9,329         | \$ 20,943        |
| Support and service         | 88,590                               | 17,493          | 106,083          | 77,076                               | 15,433           | 92,509           |
| Hardware                    | 14,104                               | 4,742           | 18,846           | 15,551                               | 5,379            | 20,930           |
| Total                       | 120,054                              | 25,441          | 145,495          | 104,241                              | 30,141           | 134,382          |
| <b>COST OF SALES</b>        |                                      |                 |                  |                                      |                  |                  |
| Cost of license             | 209                                  | 13              | 222              | 285                                  | 800              | 1,085            |
| Cost of support and service | 55,414                               | 12,548          | 67,962           | 49,148                               | 12,288           | 61,436           |
| Cost of hardware            | 10,046                               | 3,583           | 13,629           | 10,647                               | 3,937            | 14,584           |
| Total                       | 65,669                               | 16,144          | 81,813           | 60,080                               | 17,025           | 77,105           |
| <b>GROSS PROFIT</b>         | <b>\$ 54,385</b>                     | <b>\$ 9,297</b> | <b>\$ 63,682</b> | <b>\$ 44,161</b>                     | <b>\$ 13,116</b> | <b>\$ 57,277</b> |
| <br>                        |                                      |                 |                  |                                      |                  |                  |
|                             | Nine Months Ended<br>March 31, 2006  |                 |                  | Nine Months Ended<br>March 31, 2005  |                  |                  |
|                             | Bank                                 | Credit Union    | Total            | Bank                                 | Credit Union     | Total            |
| <b>REVENUE</b>              |                                      |                 |                  |                                      |                  |                  |
| License                     | \$ 44,280                            | \$ 14,030       | \$ 58,310        | \$ 40,997                            | \$ 21,645        | \$ 62,642        |
| Support and service         | 259,874                              | 52,134          | 312,008          | 222,242                              | 41,641           | 263,883          |
| Hardware                    | 45,154                               | 14,423          | 59,577           | 52,123                               | 15,790           | 67,913           |
| Total                       | 349,308                              | 80,587          | 429,895          | 315,362                              | 79,076           | 394,438          |
| <b>COST OF SALES</b>        |                                      |                 |                  |                                      |                  |                  |
| Cost of license             | 1,089                                | 1,045           | 2,134            | 1,820                                | 2,608            | 4,428            |
| Cost of support and service | 161,254                              | 37,301          | 198,555          | 143,300                              | 35,112           | 178,412          |
| Cost of hardware            | 32,368                               | 11,118          | 43,486           | 36,928                               | 12,082           | 49,010           |
| Total                       | 194,711                              | 49,464          | 244,175          | 182,048                              | 49,802           | 231,850          |

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|                                   | -----<br>\$154,597<br>=====         | -----<br>\$ 31,123<br>===== | -----<br>\$185,720<br>=====        | -----<br>\$133,314<br>===== | -----<br>\$ 29,274<br>===== | -----<br>\$162,588<br>===== |
|-----------------------------------|-------------------------------------|-----------------------------|------------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                   | March 31,<br>-----<br>2006<br>----- |                             | June 30,<br>-----<br>2005<br>----- |                             |                             |                             |
| GROSS PROFIT                      |                                     |                             |                                    |                             |                             |                             |
| Property and equipment, net       |                                     |                             |                                    |                             |                             |                             |
| Bank systems and services         |                                     | \$ 217,013                  |                                    | \$ 208,541                  |                             |                             |
| Credit Union systems and services |                                     | 33,863                      |                                    | 34,650                      |                             |                             |
| Total                             |                                     | \$ 250,876                  |                                    | \$ 243,191                  |                             |                             |
| Identified intangible assets, net |                                     |                             |                                    |                             |                             |                             |
| Bank systems and services         |                                     | \$ 271,341                  |                                    | \$ 241,054                  |                             |                             |
| Credit Union systems and services |                                     | 50,431                      |                                    | 52,334                      |                             |                             |
| Total                             |                                     | \$ 321,772                  |                                    | \$ 293,388                  |                             |                             |

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

RESULTS OF OPERATIONS

Background and Overview

We provide integrated computer systems for in-house and outsourced data processing to commercial banks, credit unions and other financial institutions. We have developed and acquired banking and credit union application software systems that we market, together with compatible computer hardware, to these financial institutions. We also perform data conversion and software implementation services of our systems and provide continuing customer support services after the systems are implemented. For our customers who prefer not to make an up-front capital investment in software and hardware, we provide our full range of products and services on an outsourced basis through our six data centers and 22 item-processing centers located throughout the United States.

A detailed discussion of the major components of the results of operations for the three and nine-month periods ended March 31, 2006 follows. All amounts are in thousands and discussions compare the current three and nine-month periods ended, March 31, 2006, to the prior year three and nine-month periods ended March 31, 2005.

REVENUE

| License Revenue             | Three Months Ended |           | %<br>Change | Nine Months Ended |           | %<br>Change |
|-----------------------------|--------------------|-----------|-------------|-------------------|-----------|-------------|
|                             | March 31,          |           |             | March 31,         |           |             |
|                             | 2006               | 2005      |             | 2006              | 2005      |             |
| License                     | \$ 20,566          | \$ 20,943 | -2%         | \$ 58,310         | \$ 62,642 | -7%         |
| Percentage of total revenue | 14%                | 16%       |             | 13%               | 16%       |             |

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

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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 and year to date can be attributed to the continued increased demand for item and data processing by banks and credit unions for delivery through our outsourcing services. Outsourcing services do not require software licenses and the financial institution's initial capital outlay is dramatically reduced by the choice of this delivery alternative.

| Support and Service Revenue | Three Months Ended |           | % Change | Nine Months Ended |           | % Change |
|-----------------------------|--------------------|-----------|----------|-------------------|-----------|----------|
|                             | March 31,          |           |          | March 31,         |           |          |
|                             | 2006               | 2005      |          | 2006              | 2005      |          |
| Support and service         | \$106,083          | \$ 92,509 | +15%     | \$312,008         | \$263,883 | +18%     |
| Percentage of total revenue | 73%                | 69%       |          | 73%               | 67%       |          |

|                                   | Qtr over Qtr Change |          | Year over Year Change |          |
|-----------------------------------|---------------------|----------|-----------------------|----------|
|                                   | \$ Change           | % Change | \$ Change             | % Change |
| In-house support & other services | \$ 4,858            | +11%     | \$ 20,967             | +17%     |
| EFT support                       | 5,122               | +36%     | 12,009                | +29%     |
| Outsourcing services              | 4,146               | +18%     | 11,736                | +18%     |
| Implementation services           | (552)               | -5%      | 3,414                 | +11%     |
| Total Increase                    | \$ 13,574           |          | \$ 48,126             |          |

Support and service 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 most support and service revenue components for the third quarter and the first nine months of fiscal 2006. There is continuing growth for the on-going demand for EFT support (ATM and debit card transaction processing services). EFT support experienced strong quarter over quarter revenue growth due to increased customer activity and expansion of our customer base, especially in our bank segment. Outsourcing services continue to grow as we add new customers, increase volume and streamline business processes. In-house annual support revenue increased due to software implementations performed in prior periods. Implementation services revenue decreased slightly for the quarter due to a decrease in number of license implementations, as well as a decrease in merger conversions for existing customers.

| Hardware Revenue            | Three Months Ended |           | % Change | Nine Months Ended |           | % Change |
|-----------------------------|--------------------|-----------|----------|-------------------|-----------|----------|
|                             | March 31,          |           |          | March 31,         |           |          |
|                             | 2006               | 2005      |          | 2006              | 2005      |          |
| Hardware                    | \$ 18,846          | \$ 20,930 | -10%     | \$ 59,577         | \$ 67,913 | -12%     |
| Percentage of total revenue | 13%                | 15%       |          | 14%               | 17%       |          |

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.

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Hardware revenue decreased mainly due to a lower unit cost of systems delivered for the current quarter and the first nine months of the current year as compared to the same periods last year. Hardware revenue in the prior year was 15% and 17% of total revenue for prior year quarter and year-to-date, respectively, while hardware revenue in the current year is 13% and 14% of total revenue for the current quarter and year to date, respectively. 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 March 31, 2006 to \$213,300 (\$62,800 in-house and \$150,500 outsourcing) from \$198,200 (\$67,100 in-house and \$131,100 outsourcing) at March 31, 2005. The current quarter backlog remained nearly flat compared to December 31, 2005, when backlog was \$213,800 (\$63,800 in-house and \$150,000 outsourcing).

### COST OF SALES AND GROSS PROFIT

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

### Cost of Sales and Gross Profit

|                             | Three Months Ended<br>March 31, |          | %      | Nine Months Ended<br>March 31, |          | %      |
|-----------------------------|---------------------------------|----------|--------|--------------------------------|----------|--------|
|                             | 2006                            | 2005     | Change | 2006                           | 2005     | Change |
| Cost of License             | \$ 222                          | \$ 1,085 | -80%   | \$ 2,134                       | \$ 4,428 | -52%   |
| Percentage of total revenue |                                 |          |        |                                |          |        |