

HENRY JACK & ASSOCIATES INC  
Form 10-Q  
May 09, 2008

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

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

For the quarterly period ended March 31, 2008

OR

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

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

Commission file number 0-14112

JACK HENRY & ASSOCIATES, INC.

(Exact name of registrant as specified in its charter)

Delaware  
State or Other Jurisdiction of Incorporation

43-1128385  
I.R.S Employer Identification No.

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

(Address of Principle Executive Offices)  
(Zip Code)

417-235-6652

(Registrant's telephone number, including area code)

N/A

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

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

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One)

Large Accelerated Filer [X]

Accelerated Filer [ ]

Non-Accelerated Filer [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of May 1, 2008, Registrant has 87,484,430 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)

|                                | March 31,<br>2008 | June 30,<br>2007  |
|--------------------------------|-------------------|-------------------|
|                                | <u>          </u> | <u>          </u> |
| ASSETS                         |                   |                   |
| CURRENT ASSETS:                |                   |                   |
| Cash and cash equivalents      | \$ 40,578         | \$ 88,617         |
| Investments, at amortized cost | 995               | 989               |
| Receivables                    | 125,879           | 209,242           |
| Prepaid expenses and other     | 24,365            | 24,130            |

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|                                                                            |            |            |
|----------------------------------------------------------------------------|------------|------------|
| Prepaid cost of product                                                    | 20,886     | 24,147     |
| Deferred income taxes                                                      | 3,260      | 3,260      |
|                                                                            | <hr/>      | <hr/>      |
| Total current assets                                                       | 215,963    | 350,385    |
| PROPERTY AND EQUIPMENT, net                                                | 246,233    | 249,882    |
| OTHER ASSETS:                                                              |            |            |
| Prepaid cost of product                                                    | 10,326     | 15,009     |
| Computer software, net of amortization                                     | 72,508     | 59,190     |
| Other non-current assets                                                   | 11,575     | 10,754     |
| Customer relationships, net of amortization                                | 65,927     | 61,248     |
| Trade names                                                                | 4,009      | 4,009      |
| Goodwill                                                                   | 289,054    | 248,863    |
|                                                                            | <hr/>      | <hr/>      |
| Total other assets                                                         | 453,399    | 399,073    |
|                                                                            | <hr/>      | <hr/>      |
| Total assets                                                               | \$ 915,595 | \$ 999,340 |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                       |            |            |
| CURRENT LIABILITIES:                                                       |            |            |
| Accounts payable                                                           | \$ 7,397   | \$ 11,481  |
| Accrued expenses                                                           | 26,379     | 34,920     |
| Accrued income taxes                                                       | 7,148      | 17,882     |
| Note payable and current maturities of capital leases                      | 85,190     | 70,503     |
| Deferred revenues                                                          | 97,345     | 195,691    |
|                                                                            | <hr/>      | <hr/>      |
| Total current liabilities                                                  | 223,459    | 330,477    |
| LONG TERM LIABILITIES:                                                     |            |            |
| Deferred revenues                                                          | 12,295     | 16,865     |
| Deferred income taxes                                                      | 63,286     | 53,290     |
| Other long-term liabilities, net of current maturities                     | 7,780      | 343        |
|                                                                            | <hr/>      | <hr/>      |
| Total long term liabilities                                                | 83,361     | 70,498     |
|                                                                            | <hr/>      | <hr/>      |
| Total liabilities                                                          | 306,820    | 400,975    |
| STOCKHOLDERS' EQUITY                                                       |            |            |
| Preferred stock - \$1 par value; 500,000 shares authorized,<br>none issued | -          | -          |
| Common stock - \$0.01 par value: 250,000,000 shares<br>authorized;         |            |            |
| Shares issued at 3/31/08 were 97,301,434                                   |            |            |
| Shares issued at 6/30/07 were 96,203,030                                   | 973        | 962        |
| Additional paid-in capital                                                 | 284,321    | 262,742    |
| Retained earnings                                                          | 542,134    | 484,845    |
| Less treasury stock at cost                                                | (218,653)  | (150,184)  |

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9,900,645 shares at 3/31/08, 7,100,967 shares at  
06/30/07

|                                            |                |                |
|--------------------------------------------|----------------|----------------|
| Total stockholders' equity                 | <u>608,775</u> | <u>598,365</u> |
| Total liabilities and stockholders' equity | \$ 915,595     | \$ 999,340     |

See notes to condensed consolidated financial statements

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

|                             | Three Months Ended<br>March 31, |                | Nine Months Ended<br>March 31, |                |
|-----------------------------|---------------------------------|----------------|--------------------------------|----------------|
|                             | <u>2008</u>                     | <u>2007</u>    | <u>2008</u>                    | <u>2007</u>    |
| REVENUE                     |                                 |                |                                |                |
| License                     | \$ 18,441                       | \$ 15,345      | \$ 55,257                      | \$ 52,057      |
| Support and service         | 149,198                         | 130,282        | 432,896                        | 370,094        |
| Hardware                    | 20,267                          | 23,276         | 67,305                         | 64,611         |
| Total                       | <u>187,906</u>                  | <u>168,903</u> | <u>555,458</u>                 | <u>486,762</u> |
| COST OF SALES               |                                 |                |                                |                |
| Cost of license             | 1,739                           | 863            | 4,279                          | 2,197          |
| Cost of support and service | 94,341                          | 78,932         | 271,362                        | 229,483        |
| Cost of hardware            | 14,875                          | 17,424         | 48,525                         | 47,103         |
| Total                       | <u>110,955</u>                  | <u>97,219</u>  | <u>324,166</u>                 | <u>278,783</u> |
| GROSS PROFIT                | 76,951                          | 71,684         | 231,292                        | 207,979        |
| OPERATING EXPENSES          |                                 |                |                                |                |
| Selling and marketing       | 13,846                          | 12,527         | 41,896                         | 37,466         |
| Research and development    | 11,340                          | 9,004          | 32,702                         | 26,509         |
| General and administrative  | 9,514                           | 9,378          | 32,785                         | 30,691         |
| Total                       | <u>34,700</u>                   | <u>30,909</u>  | <u>107,383</u>                 | <u>94,666</u>  |
| OPERATING INCOME            | 42,251                          | 40,775         | 123,909                        | 113,313        |
| INTEREST INCOME (EXPENSE)   |                                 |                |                                |                |
| Interest income             | 267                             | 658            | 1,955                          | 2,620          |
| Interest expense            | (583)                           | (439)          | (770)                          | (954)          |
| Total                       | <u>(316)</u>                    | <u>219</u>     | <u>1,185</u>                   | <u>1,666</u>   |

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|                                             |               |               |               |               |
|---------------------------------------------|---------------|---------------|---------------|---------------|
| INCOME BEFORE INCOME TAXES                  | 41,935        | 40,994        | 125,094       | 114,979       |
| PROVISION FOR INCOME TAXES                  | <u>15,323</u> | <u>14,614</u> | <u>45,792</u> | <u>39,399</u> |
| NET INCOME                                  | \$ 26,612     | \$ 26,380     | \$ 79,302     | \$ 75,580     |
| Diluted net income per share                | \$ 0.30       | \$ 0.29       | \$ 0.88       | \$ 0.82       |
| Diluted weighted average shares outstanding | 88,907        | 91,753        | 90,221        | 92,297        |
| Basic net income per share                  | \$ 0.30       | \$ 0.29       | \$ 0.89       | \$ 0.84       |
| Basic weighted average shares outstanding   | 87,615        | 89,893        | 88,725        | 90,387        |

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, |               |
|-------------------------------------------------------------------------------------------|--------------------------------|---------------|
|                                                                                           | <u>2008</u>                    | <u>2007</u>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                              |                                |               |
| Net Income                                                                                | \$ 79,302                      | \$ 75,580     |
| Adjustments to reconcile net income from operations<br>to cash from operating activities: |                                |               |
| Depreciation                                                                              | 30,149                         | 27,096        |
| Amortization                                                                              | 16,096                         | 10,271        |
| Deferred income taxes                                                                     | 8,568                          | 12,169        |
| Expense for stock-based compensation                                                      | 991                            | 897           |
| Loss on disposal of property and equipment                                                | 548                            | 108           |
| Other, net                                                                                | (29)                           | (4)           |
| Changes in operating assets and liabilities, net of acquisitions:                         |                                |               |
| Receivables                                                                               | 85,155                         | 65,890        |
| Prepaid expenses, prepaid cost of product, and other                                      | 7,324                          | 1,821         |
| Accounts payable                                                                          | (4,482)                        | (10,051)      |
| Accrued expenses                                                                          | (9,075)                        | (2,281)       |
| Income taxes                                                                              | (8,204)                        | (472)         |
| Deferred revenues                                                                         | (108,873)                      | (89,599)      |
| Net cash from operating activities                                                        | <u>97,470</u>                  | <u>91,425</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                              |                                |               |

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|                                                                       |                             |                             |
|-----------------------------------------------------------------------|-----------------------------|-----------------------------|
| Payment for acquisitions, net of cash acquired                        | (49,026)                    | (39,389)                    |
| Capital expenditures                                                  | (27,787)                    | (21,139)                    |
| Computer software developed                                           | (17,489)                    | (15,554)                    |
| Proceeds from investments                                             | 2,000                       | 3,735                       |
| Purchase of investments                                               | (1,974)                     | (2,614)                     |
| Proceeds from sale of property and equipment                          | 2,083                       | -                           |
| Other, net                                                            | (106)                       | 101                         |
|                                                                       | <u>                    </u> | <u>                    </u> |
| Net cash from investing activities                                    | (92,299)                    | (74,860)                    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                          |                             |                             |
| Note payable, net                                                     | 14,941                      | (540)                       |
| Purchase of treasury stock                                            | (68,469)                    | (71,369)                    |
| Dividends paid                                                        | (18,166)                    | (15,855)                    |
| Excess tax benefits from stock-based compensation                     | 2,828                       | 3,355                       |
| Proceeds from issuance of common stock upon exercise of stock options | 14,863                      | 20,999                      |
| Proceeds from sale of common stock, net                               | 793                         | 436                         |
|                                                                       | <u>                    </u> | <u>                    </u> |
| Net cash from financing activities                                    | (53,210)                    | (62,974)                    |
|                                                                       | <u>                    </u> | <u>                    </u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS                               | \$ (48,039)                 | \$ (46,409)                 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                        | \$ 88,617                   | \$ 74,139                   |
|                                                                       | <u>                    </u> | <u>                    </u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                              | \$ 40,578                   | \$ 27,730                   |

Net cash paid for income taxes was \$42,041 and \$24,349 for the nine months ended March 31, 2008 and 2007, respectively. The Company paid interest of \$1,119 and \$1,056 for the nine months ended March 31, 2008 and 2007, respectively.

See notes to condensed consolidated financial statements

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

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

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

**DESCRIPTION OF THE COMPANY**

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

services. JHA also provides continuing support and services to customers using in-house or outsourced systems.

## CONSOLIDATION

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

## STOCK-BASED COMPENSATION

For the three months ended March 31, 2008 and 2007, there was \$464 and \$484, respectively, in compensation expense from equity-based awards. For the first nine months of fiscal 2008 and 2007 compensation expense from equity-based awards was \$991 and \$897, respectively.

Changes in stock options outstanding and exercisable are as follows:

|                            | Number of<br>Shares<br>(in thousands) | Weighted<br>Average Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
|----------------------------|---------------------------------------|---------------------------------------|---------------------------------|
| Outstanding July 1, 2007   | 5,389                                 | \$16.24                               |                                 |
| Granted                    | 50                                    | 28.52                                 |                                 |
| Forfeited or expired       | (5)                                   | 24.46                                 |                                 |
| Exercised                  | (1,067)                               | 13.92                                 |                                 |
| Outstanding March 31, 2008 | 4,367                                 | \$16.94                               | \$35,184                        |
| Exercisable March 31, 2008 | 4,289                                 | \$16.79                               | \$35,030                        |

For the nine-months ended March 31, 2008 and 2007, the weighted average fair value of options granted was \$11.83 and \$10.43, respectively, using the Black-Scholes option pricing model. In both years, all options were granted during the Company's second fiscal quarter. All options grants in fiscal 2008 and 2007 were made to independent directors of the Company.

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

|                               | Nine Months Ended<br>March 31, |       |
|-------------------------------|--------------------------------|-------|
|                               | 2008                           | 2007  |
| Weighted Average Assumptions: |                                |       |
| Expected life (years)         | 7.41                           | 7.41  |
| Volatility                    | 28%                            | 37%   |
| Risk free interest rate       | 4.1%                           | 4.7%  |
| Dividend yield                | 0.98%                          | 0.96% |

As of March 31, 2008, there was \$243 of total unrecognized compensation cost related to outstanding options that is expected to be recognized over a weighted-average period of 0.61 years.



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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 restrictions will be lifted over periods ranging from three to seven years from the date of grants. On certain awards, the restrictions may be lifted sooner if certain targets relating to total shareholder return are met. As of March 31, 2008, 133 shares of restricted stock have been issued, however, none of these shares have vested.

The following table summarizes non-vested share awards as of March 31, 2008, as well as activity for the nine months then ended:

| Shares                              | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------------|-------------------------------------------------|
| Non-vested shares at July 1, 2007   | -                                               |
|                                     | \$                                              |
|                                     | -                                               |
| Granted                             | 133                                             |
|                                     | 24.64                                           |
| Vested                              | -                                               |
|                                     | -                                               |
| Forfeited                           | -                                               |
|                                     | -                                               |
| Non-vested shares at March 31, 2008 |                                                 |

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

At March 31, 2008, there was \$2,732 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 3.85 years.

#### COMPREHENSIVE INCOME

Comprehensive income for the three and nine-month periods ended March 31, 2008 and 2007 equals the Company's net income.

#### COMMON STOCK

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or short-term borrowings on its existing credit facility. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2007, there were 7,101 shares in treasury stock and the Company had the remaining authority to repurchase up to 2,890 shares. During the nine months ended March 31, 2008, the Company repurchased 2,800 treasury shares for \$68,469. On February 4, 2008, the Company's Board of Directors approved a 5,000 share increase to the stock repurchase authorization. The total cost of treasury shares at March 31, 2008 is \$218,653. At March 31, 2008, there were 9,901 shares in treasury stock and the Company had the authority to repurchase up to 5,090 additional shares.

#### INTERIM FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America applicable to interim condensed consolidated financial statements, and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. The condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes, which are included in its Annual Report on Form 10-K ("Form 10-K") for the year ended June 30, 2007. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in its Form 10-K for the year ended June 30, 2007.

In the opinion of management of the Company, the accompanying condensed consolidated financial statements reflect all adjustments necessary (consisting solely of normal recurring adjustments) to present fairly the financial position of the Company as of March 31, 2008, and the results of its operations for the three and nine-month periods ended March 31, 2008 and 2007 and its cash flows for the nine-month periods ended March 31, 2008 and 2007.

The results of operations for the three and nine-month periods ended March 31, 2008 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, 2008.

ACQUISITIONS

On July 1, 2007, the Company acquired all of the capital stock of Gladiator Technology Services, Inc. ("Gladiator"). Gladiator is a provider of technology security services for financial institutions. The purchase price for Gladiator, \$17,425 paid in cash, was preliminarily allocated to the assets and liabilities acquired based on then-estimated fair values at the acquisition date, resulting in an allocation of \$(729) to working capital, \$779 to property and equipment, \$4,859 to customer relationships, and \$12,516 to goodwill. The acquired goodwill has been allocated to the banking systems and services segment. The Company and the former shareholders of Gladiator jointly made an IRC Section 338(h)(10) election for this acquisition. This election allows treatment of this acquisition as an asset acquisition, which permits the Company to amortize the customer relationships and goodwill for tax purposes.

On October 1, 2007, the Company acquired all of the capital stock of AudioTel Corporation ("AudioTel"). AudioTel is a provider of remittance, merchant capture, check imaging, document imaging and management, and telephone and internet banking solutions. The purchase price for AudioTel, \$32,092 paid in cash, was preliminarily allocated to the assets and liabilities acquired based upon then-estimated fair values at the acquisition date, resulting in an allocation of \$(2,634) to working capital, \$569 to property and equipment, \$6,017 to customer relationships, \$5,728 to capitalized software, \$(4,346) to deferred taxes, and \$26,758 to goodwill. The acquired goodwill has been allocated to the banking systems and services segment and is non-deductible for tax purposes. Contingent purchase consideration of up to \$3,000 may be due based on AudioTel's operating income over the two-year period ending September 30, 2009. This additional purchase price, if any, will be payable on or before November 15, 2009.

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

Pro Forma (unaudited)

Three Months Ended

Nine Months Ended

March 31,

---

March 31,

---

2008

2007

2008

2007

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(Actual)

(Pro Forma)

Revenue

\$

187,906

\$

173,336

\$

558,574

\$

501,484

Gross profit

76,951

74,236

232,635

217,045

Net Income

\$

26,612

\$

26,759

\$

79,388

\$

76,780

Earnings per share - diluted

|                            |        |
|----------------------------|--------|
|                            | \$     |
|                            | 0.30   |
|                            | \$     |
|                            | 0.29   |
|                            | \$     |
|                            | 0.88   |
|                            | \$     |
|                            | 0.83   |
| Diluted Shares             |        |
|                            | 88,907 |
|                            | 91,753 |
|                            | 90,221 |
|                            | 92,297 |
| Earnings per share - basic |        |
|                            | \$     |
|                            | 0.30   |
|                            | \$     |
|                            | 0.30   |
|                            | \$     |
|                            | 0.89   |
|                            | \$     |
|                            | 0.85   |
| Basic Shares               |        |
|                            | 87,615 |
|                            | 89,893 |
|                            | 88,725 |
|                            | 13     |

## DEBT

The Company renewed a bank credit line on March 7, 2007 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (5.25% at March 31, 2008). The credit line expires March 7, 2009 and is secured by \$1,000 of investments. At March 31, 2008, no amount was outstanding.

The Company obtained an unsecured bank credit line on April 28, 2006 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (4.25% at March 31, 2008). The credit line matures on April 29, 2010. At March 31, 2008, no amount was outstanding.

An unsecured revolving bank credit facility allows short-term borrowings of up to \$150,000 which may be increased by the Company at any time prior to maturity to \$225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate), plus an applicable percentage in each case determined by the Company's leverage ratio. The unsecured revolving credit line terminates May 31, 2012. At June 30, 2007, the revolving bank credit facility balance was \$70,000. At March 31, 2008, the revolving bank credit facility balance was \$85,000.

The Company has entered into various capital lease obligations totaling \$1,168 for the use of certain computer equipment. Those amounts have been included in property and equipment and the related depreciation is included in total depreciation expense. At March 31, 2008, \$266 was outstanding, of which \$190 is included in current maturities.

## COMMITMENTS AND CONTINGENCIES

For fiscal 2008, the Board of Directors approved bonus plans for its executive officers and general managers for the current fiscal year. Under the plan, bonuses will be paid following the end of the current fiscal year based upon achievement of operating income targets and upon attainment of a superior return on average assets in comparison with a group of peer companies selected by the Compensation Committee. 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 also 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

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

Adopting FIN 48 had the following impact on our financial statements: decreased net deferred tax liability by \$2,914 and retained earnings by \$3,850; and increased long term liabilities by \$6,764. As of July 1, 2007, the Company had \$5,838 of unrecognized tax benefits of which \$3,366, if recognized, would affect our effective tax rate. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. As of July 1, 2007, we had accrued interest and penalties of \$1,345 related to uncertain tax positions. There have been no significant changes in the recorded amounts since adoption.

The IRS audit for tax years 2005 through 2006 has concluded without material findings; however potential procedural filings with the IRS may cause the unrecognized tax benefits we have recorded to change. We anticipate potential changes through these filings could reduce previously recorded unrecognized tax benefits up to \$3,000.

In September 2006, the FASB issued Statement on Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and requires enhanced disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for the Company beginning July 1, 2008. We do not anticipate that the adoption of this Standard will have a material impact on the Company's consolidated financial statements.

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

In December 2007, the FASB issued SFAS No. 141(R), "*Business Combinations*," ("SFAS 141(R)") which replaces SFAS No. 141. SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquire and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for the Company on July 1, 2009. SFAS 141(R) will have an impact on the Company's accounting for business combinations on a prospective basis once adopted; however, the materiality of that impact cannot be determined.

NOTE 4. SHARES USED IN COMPUTING NET INCOME PER SHARE

|  | Three Months Ended<br>March 31, | Nine Months Ended<br>March 31, |
|--|---------------------------------|--------------------------------|
|  | <hr/>                           | <hr/>                          |
|  | <u>2008</u>                     |                                |
|  | <u>2007</u>                     |                                |
|  | <u>2008</u>                     |                                |

2007

Weighted average number of common shares

outstanding - basic

87,615

89,893

88,725

90,387

Common stock equivalents

1,292

1,860

1,496

1,910

Weighted average number of common and common

equivalent shares outstanding - diluted

88,907

91,753

90,221

92,297

Per share information is based on the weighted average number of common shares outstanding for the periods ended March 31, 2008 and 2007. 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 580 and 661 shares and 525 and 919 shares for the three and nine-month periods ended March 31, 2008 and 2007, 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



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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, 2008 |                         |                  | Three Months Ended<br>March 31, 2007 |                         |                  |
|-----------------------------|--------------------------------------|-------------------------|------------------|--------------------------------------|-------------------------|------------------|
|                             | <u>Bank</u>                          | <u>Credit<br/>Union</u> | <u>Total</u>     | <u>Bank</u>                          | <u>Credit<br/>Union</u> | <u>Total</u>     |
| <b>REVENUE</b>              |                                      |                         |                  |                                      |                         |                  |
| License                     | \$ 13,185                            | \$ 5,256                | \$ 18,441        | \$ 13,311                            | \$ 2,034                | \$ 15,345        |
| Support and service         | 128,170                              | 21,028                  | 149,198          | 111,492                              | 18,790                  | 130,282          |
| Hardware                    | 15,277                               | 4,990                   | 20,267           | 17,117                               | 6,159                   | 23,276           |
| <b>Total</b>                | <b>156,632</b>                       | <b>31,274</b>           | <b>187,906</b>   | <b>141,920</b>                       | <b>26,983</b>           | <b>168,903</b>   |
| <b>COST OF SALES</b>        |                                      |                         |                  |                                      |                         |                  |
| Cost of license             | 1,339                                | 400                     | 1,739            | 861                                  | 2                       | 863              |
| Cost of support and service | 79,481                               | 14,860                  | 94,341           | 65,373                               | 13,559                  | 78,932           |
| Cost of hardware            | 11,311                               | 3,564                   | 14,875           | 12,817                               | 4,607                   | 17,424           |
| <b>Total</b>                | <b>92,131</b>                        | <b>18,824</b>           | <b>110,955</b>   | <b>79,051</b>                        | <b>18,168</b>           | <b>97,219</b>    |
| <b>GROSS PROFIT</b>         | <b>\$ 64,501</b>                     | <b>\$ 12,450</b>        | <b>\$ 76,951</b> | <b>\$ 62,869</b>                     | <b>\$ 8,815</b>         | <b>\$ 71,684</b> |

|                             | Nine Months Ended<br>March 31, 2008 |                         |                | Nine Months Ended<br>March 31, 2007 |                         |                |
|-----------------------------|-------------------------------------|-------------------------|----------------|-------------------------------------|-------------------------|----------------|
|                             | <u>Bank</u>                         | <u>Credit<br/>Union</u> | <u>Total</u>   | <u>Bank</u>                         | <u>Credit<br/>Union</u> | <u>Total</u>   |
| <b>REVENUE</b>              |                                     |                         |                |                                     |                         |                |
| License                     | \$ 38,371                           | \$ 16,886               | \$ 55,257      | \$ 42,875                           | \$ 9,182                | \$ 52,057      |
| Support and service         | 370,635                             | 62,261                  | 432,896        | 313,570                             | 56,524                  | 370,094        |
| Hardware                    | 52,152                              | 15,153                  | 67,305         | 50,062                              | 14,549                  | 64,611         |
| <b>Total</b>                | <b>461,158</b>                      | <b>94,300</b>           | <b>555,458</b> | <b>406,507</b>                      | <b>80,255</b>           | <b>486,762</b> |
| <b>COST OF SALES</b>        |                                     |                         |                |                                     |                         |                |
| Cost of license             | 3,450                               | 829                     | 4,279          | 2,182                               | 15                      | 2,197          |
| Cost of support and service | 228,281                             | 43,081                  | 271,362        | 188,761                             | 40,722                  | 229,483        |
| Cost of hardware            | 37,530                              | 10,995                  | 48,525         | 36,220                              | 10,883                  | 47,103         |
| <b>Total</b>                | <b>269,261</b>                      | <b>54,905</b>           | <b>324,166</b> | <b>227,163</b>                      | <b>51,620</b>           | <b>278,783</b> |

|              |            |           |            |            |           |            |
|--------------|------------|-----------|------------|------------|-----------|------------|
| GROSS PROFIT | \$ 191,897 | \$ 39,395 | \$ 231,292 | \$ 179,344 | \$ 28,635 | \$ 207,979 |
|--------------|------------|-----------|------------|------------|-----------|------------|

|                                   | <u>March 31,</u><br><u>2008</u> | <u>June 30,</u><br><u>2007</u> |
|-----------------------------------|---------------------------------|--------------------------------|
| Property and equipment, net       |                                 |                                |
| Bank systems and services         | \$ 214,932                      | \$ 217,195                     |
| Credit Union systems and services | 31,301                          | 32,687                         |
|                                   | <u>                    </u>     | <u>                    </u>    |
| Total                             | \$ 246,233                      | \$ 249,882                     |
| <br>                              |                                 |                                |
| Identified intangible assets, net |                                 |                                |
| Bank systems and services         | \$ 383,298                      | \$ 321,096                     |
| Credit Union systems and services | 48,200                          | 52,214                         |
|                                   | <u>                    </u>     | <u>                    </u>    |
| Total                             | \$ 431,498                      | \$ 373,310                     |

## 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 eight data centers in six physical locations and 21 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, 2008 follows. All amounts are in thousands and discussions compare the current three and nine-month periods ended, March 31, 2008, to the prior year three and nine-month periods ended March 31, 2007.

#### REVENUE

##### License Revenue

Three Months Ended

%

Nine Months Ended

%

March 31,

Change

March 31,

Change

2008

2007

2008

2007

License

\$ 18,441

\$ 15,345

20%

\$ 55,257

\$ 52,057

6%

Percentage of total revenue

10%

9%

10%

11%

License revenue represents the delivery of application software systems contracted with us by the customer. We license our proprietary software products under standard license agreements that typically provide the customer with a non-exclusive, non-transferable right to use the software on a single computer and for a single financial institution location.

The increase in license revenue for the quarter can be primarily attributed to strong sales of Episys®, our flagship core processing system aimed at larger credit unions, compared to the same period a year ago. In addition, sales of Yellow Hammer™ BSA, our new compliance and risk mitigation solution, were strong during the current quarter. Both of these products have performed well throughout the current fiscal year and continue to be the primary drivers of license

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revenue growth during fiscal 2008. The growth in these products more than offset decreased license sales of our flagship core processing system aimed at larger banks, Silverlake®, for both the quarter and year-to-date.

Support and Service Revenue

|                             | Three Months Ended |             | %             | Nine Months Ended |             | %             |
|-----------------------------|--------------------|-------------|---------------|-------------------|-------------|---------------|
|                             | <u>March 31,</u>   |             |               | <u>March 31,</u>  |             |               |
|                             | <u>2008</u>        | <u>2007</u> | <u>Change</u> | <u>2008</u>       | <u>2007</u> | <u>Change</u> |
| Support and service         | \$ 49,198          | \$ 30,282   | 15%           | \$ 432,896        | \$ 370,094  | 17%           |
| Percentage of total revenue | 79%                | 77%         |               | 78%               | 76%         |               |

|                                   | <u>Qtr over Qtr Change</u> |                 | <u>Year over Year Change</u> |                 |
|-----------------------------------|----------------------------|-----------------|------------------------------|-----------------|
|                                   | <u>\$ Change</u>           | <u>% Change</u> | <u>\$ Change</u>             | <u>% Change</u> |
| In-house support & other services | \$ 7,317                   | +13%            | \$ 25,181                    | +15%            |
| EFT support                       | 7,923                      | +28%            | 24,018                       | +32%            |
| Outsourcing services              | 2,799                      | +9%             | 9,073                        | +10%            |
| Implementation services           | 877                        | +6%             | 4,529                        | +10%            |
| Total Increase                    | \$ 18,916                  |                 | \$ 62,801                    |                 |

Support and service fees are generated from implementation services (including conversion, installation, configuration and training), annual support to assist the customer in operating their systems and to enhance and update the software, outsourced data processing services and EFT Support services (including ATM and debit card transaction processing, online bill payment services, remote deposit capture and Check 21 transaction processing services).

There was strong growth in all support and service revenue components for the third quarter and the first nine months of fiscal 2008. In-house support and other services increased partially as a result of recent acquisitions. In addition, because annual maintenance fees are usually based on supported institutions' asset size, in-house support revenues increase as our customers' assets grow. EFT support experienced the largest percentage growth due to increased customer activity and expansion of our customer base. Outsourcing services also continue to grow as we add new customers and increase volume. Implementation services revenue increased primarily due to growth in merger conversions for existing customers that acquired other financial institutions.

Hardware Revenue

Three Months Ended

%

Nine Months Ended

%

March 31,

Change

March 31,

Change

2008

2007

2008

2007

Hardware

\$ 20,267

\$ 23,276

-13%

\$ 67,305

\$ 64,611

4%

Percentage of total revenue

11%

14%

12%

13%

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

Hardware revenue decreased mainly due to a decrease in the number of hardware systems and components delivered for the current quarter. These decreases have mostly offset revenue gains from the first two quarters of fiscal 2008, when there was an increase in revenue from hardware components used in our remote capture product for imaging and exchanging checks and related to IBM System i upgrades.

**BACKLOG**

Our backlog increased 12% at March 31, 2008 to \$249,000 (\$62,000 in-house and \$187,000 outsourcing) from \$221,200 (\$61,400 in-house and \$159,800 outsourcing) at March 31, 2007. The current quarter backlog increased 3% compared to December 31, 2007, when backlog was \$240,200 (\$61,600 in-house and \$178,600 outsourcing).

**COST OF SALES AND GROSS PROFIT**

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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       |                          | %<br>Change | Nine Months Ended        |                          | %<br>Change |
|----------------------------------|--------------------------|--------------------------|-------------|--------------------------|--------------------------|-------------|
|                                  | <u>March 31,</u><br>2008 | <u>March 31,</u><br>2007 |             | <u>March 31,</u><br>2008 | <u>March 31,</u><br>2007 |             |
| Cost of License                  | \$ 1,739                 | \$ 863                   | 102%        | \$ 4,279                 | \$ 2,197                 | 95%         |
| Percentage of total revenue      | 1%                       | 1%                       |             | 1%                       | <1%                      |             |
| License Gross Profit             | \$ 16,702                | \$ 14,482                | 15%         | \$ 50,978                | \$ 49,860                | 2%          |
| Gross Profit Margin              | 91%                      | 94%                      |             | 92%                      | 96%                      |             |
| Cost of support and service      | \$ 94,341                | \$ 78,932                | 20%         | \$ 271,362               | \$ 229,483               | 18%         |
| Percentage of total revenue      | 50%                      | 47%                      |             | 49%                      | 47%                      |             |
| Support and Service Gross Profit | \$ 54,857                | \$ 51,350                | 7%          | \$ 161,534               | \$ 140,611               | 15%         |
| Gross Profit Margin              | 37%                      | 39%                      |             | 37%                      | 38%                      |             |
| Cost of hardware                 | \$ 14,875                | \$ 17,424                | -15%        | \$ 48,525                | \$ 47,103                | 3%          |
| Percentage of total revenue      | 8%                       | 10%                      |             | 9%                       | 10%                      |             |
| Hardware Gross Profit            | \$ 5,392                 | \$ 5,852                 | -8%         | \$ 18,780                | \$ 17,508                | 7%          |
| Gross Profit Margin              | 27%                      | 25%                      |             | 28%                      | 27%                      |             |
| TOTAL COST OF SALES              | \$ 110,955               | \$ 97,219                | 14%         | \$ 324,166               | \$ 278,783               | 16%         |
| Percentage of total revenue      | 59%                      | 58%                      |             | 58%                      | 57%                      |             |
| TOTAL GROSS PROFIT               | \$ 76,951                | \$ 71,684                | 7%          | \$ 231,292               | \$ 207,979               | 11%         |
| Gross Profit Margin              | 41%                      | 42%                      |             | 42%                      | 43%                      |             |

Cost of license increased for the current quarter and the first nine months of fiscal 2008 due to greater third party software vendor costs. Cost of support and service increased for the quarter and year to date in fiscal 2008 due to additional labor-related costs and depreciation expense for new facilities and equipment as compared to last year and was generally commensurate with the increase in support and service revenue. Cost of hardware decreased due to a decrease in hardware sales during the current quarter but increased slightly year-to-date, which was also consistent with the change in revenues during that period.

Gross margin on license revenue decreased to 91% for the current quarter and to 92% for the first nine months of the fiscal year compared to 94% and 96% for the same periods last year due to an increase in third party software sales, where the gross margins are lower than on our owned products. The gross profit increase for the third quarter and year to date in support and service is due to continued revenue growth. Gross margin for support and service was 37% for both the current quarter and year-to-date, which was lower than the same periods a year ago due to increases in direct

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processing fees and other 3<sup>rd</sup> party costs. Hardware gross margin increased from 25% in the third quarter last year to 27% in the third quarter of the current year and increased slightly from 27% to 28% year-to-date; variations are primarily due to sales mix and vendor rebates on hardware delivered.

OPERATING EXPENSES

Selling and Marketing

Three Months Ended

%

Nine Months Ended

%

March 31,

Change

March 31,

Change

2008

2007

2008

2007

Selling and marketing

\$ 13,846

\$ 12,527

11%

\$ 41,896

\$ 37,466

12%

Percentage of total revenue

7%

7%

8%

8%

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

For the three and nine months ended March 31, 2008, selling and marketing expenses increased due to additional labor-related costs. Selling and marketing expense as a percentage of total revenue for the quarter and year-to-date remained consistent in comparison to the same periods a year ago.

| Research and Development    | Three Months Ended |             | %             | Nine Months Ended |             | %             |
|-----------------------------|--------------------|-------------|---------------|-------------------|-------------|---------------|
|                             | <u>March 31,</u>   |             |               | <u>March 31,</u>  |             |               |
|                             | <u>2008</u>        | <u>2007</u> | <u>Change</u> | <u>2008</u>       | <u>2007</u> | <u>Change</u> |
| Research and development    | \$ 11,340          | \$ 9,004    | 26%           | \$ 32,702         | \$ 26,509   | 23%           |
| Percentage of total revenue | 6%                 | 5%          |               | 6%                | 5%          |               |

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

Research and development expenses increased primarily due to employee related costs for ongoing development of new products and enhancements to existing products and due to acquisitions. Research and development expenses increased for the third quarter and the first nine months of 2008 by 26% and 23% respectively; likewise, as a percentage of total revenue they increased slightly from 5% to 6% for the third quarter and year-to-date compared to the prior year.

| General and Administrative  | Three Months Ended |             | %             | Nine Months Ended |             | %             |
|-----------------------------|--------------------|-------------|---------------|-------------------|-------------|---------------|
|                             | <u>March 31,</u>   |             |               | <u>March 31,</u>  |             |               |
|                             | <u>2008</u>        | <u>2007</u> | <u>Change</u> | <u>2008</u>       | <u>2007</u> | <u>Change</u> |
| General and administrative  | \$ 9,514           | \$ 9,378    | 1%            | \$ 32,785         | \$ 30,691   | 7%            |
| Percentage of total revenue | 5%                 | 6%          |               | 6%                | 6%          |               |

General and administrative costs include all expenses related to finance, legal, human resources, plus all administrative costs. General and administrative expenses increased for the third quarter and the first nine months of fiscal year 2008, due to increased employee-related costs and travel-related expenses (such as fuel costs) compared to the same periods a year ago; however, they remained generally level as a percentage of total revenue (5-6%) across all periods.

#### INTEREST INCOME (EXPENSE)



- The Company had net interest expense for the quarter ended March 31, 2008 of \$(316) compared to the prior year when it had net interest income of \$219. Interest income decreased \$391, while interest expense increased \$144. Net interest income for the current nine month period reflects a decrease of \$481, with interest income decreasing \$665 and interest expense decreasing \$184. For both periods, the changes in interest income are a result of fluctuating cash and cash equivalent balances while changes in interest expense are primarily due to borrowings on the revolving bank credit facility, which have been higher on average in the current fiscal year.

#### PROVISION FOR INCOME TAXES

- The provision for income taxes was \$15,323 and \$45,792 for the three and nine-month periods ended March 31, 2008 compared with \$14,614 and \$39,399 for the same periods last year. For the current fiscal year, the rate of income taxes is currently estimated at 36.6% of income before income taxes compared to 34.3% as reported for the same period in fiscal 2007. During fiscal 2007, the Research and Experimentation Credit was renewed retroactive to January 1, 2006. Passage of this legislation had a significant tax benefit (approximately \$3,000) in the second quarter of fiscal 2007 since research credits generated from January 1, 2006 through December 31, 2006 were recognized all in that quarter. In addition, the Research and Experimentation Credit expired as of December 31, 2007, which also contributed to the increase in the tax rate for the current fiscal year.

#### NET INCOME

- Net income increased 1% for the three months ended March 31, 2008. Net income for the third quarter of fiscal 2008 was \$26,612 or \$0.30 per diluted share compared to \$26,380 or \$0.29 per diluted share in the same period last year. Net income increased 5% for the nine-month period ended March 31, 2008 to \$79,302 compared to \$75,580 for the same nine month period last year. Diluted earnings per share increased 7% for the nine month period ended March 31, 2008 to \$0.88 per share from \$0.82 per share a year ago.

#### 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<br>March 31, |             | Percent<br>Change | Nine Months Ended<br>March 31, |             | Percent<br>Change |
|------------------------|---------------------------------|-------------|-------------------|--------------------------------|-------------|-------------------|
|                        | <u>2008</u>                     | <u>2007</u> |                   | <u>2008</u>                    | <u>2007</u> |                   |
| Revenue                | \$ 156,632                      | \$ 141,920  | 10%               | \$ 461,158                     | \$ 406,507  | 13%               |
| Gross Profit           | \$ 64,501                       | \$ 62,869   | 3%                | \$ 191,897                     | \$ 179,344  | 7%                |
| Gross Profit<br>Margin | 41%                             | 44%         |                   | 42%                            | 44%         |                   |

Revenue growth in bank systems and services is primarily due to continued growth in support and service revenue. In particular, this increase is due to growth in in-house maintenance revenue from recently acquired products, asset growth at supported institutions producing increases in in-house maintenance billings, and to growth in EFT support, which has increased 28% or \$6,941 for the current quarter and 32% or \$21,047 year-to-date compared to last year. ATM and debit card transaction processing continues to contribute strong growth and our online bill payment

solutions and our Check 21 transaction processing have experienced the largest percentage growth for the current quarter and year-to-date, respectively. Bank segment gross profit increased from last year roughly in line with the overall increase in segment revenues. Gross profit margins for the quarter and year-to-date have decreased from the prior year. These decreases correspond to a decrease in license revenue, which carries a higher profit margin than the other revenue components.

#### Credit Union Systems and Services

|                        | Three Months Ended<br>March 31, |             | Percent<br>Change | Nine Months Ended<br>March 31, |             | Percent<br>Change |
|------------------------|---------------------------------|-------------|-------------------|--------------------------------|-------------|-------------------|
|                        | <u>2008</u>                     | <u>2007</u> |                   | <u>2008</u>                    | <u>2007</u> |                   |
| Revenue                | \$ 31,274                       | \$ 26,983   | 16%               | \$ 94,300                      | \$ 80,255   | 18%               |
| Gross Profit           | \$ 12,450                       | \$ 8,815    | 41%               | \$ 39,395                      | \$ 28,635   | 38%               |
| Gross Profit<br>Margin | 40%                             | 33%         |                   | 42%                            | 36%         |                   |

For the current quarter, the credit union system and services segment experienced growth in both license and support and service revenue, partially offset by a decrease in hardware revenue. During the current fiscal year, all revenue components of the credit union segment have experienced growth. In particular, this segment has experienced a rise in license revenue, representing an increase in both the number and size of core product license agreements in comparison to the same periods a year ago. For both the quarter and year-to-date, credit union gross profit and gross profit margins increased, mostly due to the increase in license revenue, which carries higher margins than other revenue components.

#### FINANCIAL CONDITION

##### Liquidity

The Company's cash and cash equivalents decreased to \$40,578 at March 31, 2008, from \$88,617 at June 30, 2007, but increased from \$27,730 at March 31, 2007. The decrease in the cash balance from June 30, 2007 is primarily due to the acquisition of both Gladiator and AudioTel and to the purchase of treasury shares.

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

|                                           | Nine months ended<br>March 31, |             |
|-------------------------------------------|--------------------------------|-------------|
|                                           | <u>2008</u>                    | <u>2007</u> |
| Net income                                | \$ 79,302                      | \$ 75,580   |
| Non-cash expenses                         | 56,323                         | 50,537      |
| Change in receivables                     | 85,155                         | 65,890      |
| Change in deferred revenue                | (108,873)                      | (89,599)    |
| Change in other assets and liabilities    | (14,437)                       | (10,983)    |
| Net cash provided by operating activities | \$ 97,470                      | \$ 91,425   |

The increase in cash provided by operating activities is primarily attributable to the increase in net income, especially after expenses that do not include a current period disbursement of cash, like depreciation and amortization, are added back.

Net cash used in investing activities for the current year is \$92,299 and included payment for acquisition activity, including the acquisition of both Gladiator and AudioTel, of \$49,026, capital expenditures of \$27,787, and capitalized software development of \$17,489. Cash used for investing activities in the first nine months of fiscal 2008 was offset by \$2,003 net proceeds from the sale of property and equipment, from sale of investments, and other items. During the first nine months of fiscal 2007, net cash used in investing activities of \$74,860 consisted of \$39,389 payment for acquisitions, \$21,139 in capital expenditures and \$15,554 for capitalized software development. Cash used for investing activities in the first nine months of fiscal 2007 was offset by \$1,222 net proceeds from investments and other items.

Net cash used in financing activities for the current year is \$53,210 and included the repurchase of 2,800 shares of our common stock for \$68,469 and the payment of dividends of \$18,166. Cash used in financing activities was partially offset by net borrowings on our debt facilities of \$14,941, by proceeds of \$15,656 from the exercise of stock options and the sale of common stock plus \$2,828 from the excess tax benefits from stock option exercises. For the first nine months of fiscal 2007, cash used in financing activities was \$62,974 and consisted of \$15,855 for dividends paid, a net cash repayment on our debt facilities of \$540, and \$71,369 for the purchase of treasury stock. Cash used in the first nine months of fiscal 2007 was partially offset by \$24,790 proceeds from the exercise of stock options, sale of common stock and the excess tax benefits from stock-based compensation.

US financial markets and many of the largest US financial institutions have recently been shaken by negative developments in the home mortgage industry and the mortgage markets, and particularly the markets for subprime mortgage-backed securities. While we believe it is too early to predict what effect, if any, these developments may have, we have not experienced any significant issues with our current collection efforts, and we believe that any future impact to our liquidity would be minimized by our access to available lines of credit.

#### Capital Requirements and Resources

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$27,787 and \$21,139 for the nine-month periods ended March 31, 2008 and 2007, respectively, were made for facilities and additional equipment. These additions were primarily funded from cash generated by operations. Total consolidated capital expenditures for the Company are not expected to exceed \$50,000 for fiscal year 2008.

The Company renewed a bank credit line on March 7, 2007 which provides for funding of up to \$8,000 and bears interest at the Federal Reserve Board's prime rate (5.25%

at March 31, 2008). The credit line expires March 7, 2009 and is secured by \$1,000 of investments. At March 31, 2008, no amount was outstanding.

The Company obtained an unsecured bank credit line on April 28, 2006 which provides for funding of up to \$5,000 and bears interest at the prime rate less 1% (4.25% at March 31, 2008). The credit line matures on April 29, 2010. At March 31, 2008, no amount was outstanding.

An unsecured revolving bank credit facility allows short-term borrowings of up to \$150,000 which may be increased by the Company at any time prior to maturity to \$225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus 0.5% or (b) the Prime Rate), plus an applicable percentage in each case determined by the Company's leverage ratio. The unsecured revolving credit line terminates May 31, 2012. At June 30, 2007, the revolving bank credit facility balance was \$70,000. At March 31, 2008, the revolving bank credit facility balance was \$85,000.

The Company has entered into various capital lease obligations totaling \$1,168 for the use of certain computer equipment. Those amounts have been included in property and equipment and the related depreciation is included in

total depreciation expense. At March 31, 2008, \$266 was outstanding, of which \$190 is included in current maturities.

The Board of Directors has authorized the Company to repurchase shares of its common stock. Under this authorization, the Company may finance its share repurchases with available cash reserves or short-term borrowings on its existing credit facility. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. At June 30, 2007, there were 7,101 shares in treasury stock and the Company had the remaining authority to repurchase up to 2,890 shares. During the nine months ended March 31, 2008, the Company repurchased 2,800 treasury shares for \$68,470. On February 4, 2008, the Company's Board of Directors approved a 5,000 increase to the stock repurchase authorization. The total cost of treasury shares at March 31, 2008 is \$218,653. At March 31, 2008, there were 9,901 shares in treasury stock and the Company had the authority to repurchase up to 5,090 additional shares.

#### Critical Accounting Policies

The Company regularly reviews its selection and application of significant accounting policies and related financial disclosures. The application of these accounting policies requires that management make estimates and judgments. The estimates that affect the application of our most critical accounting policies and require our most significant judgments are outlined in Management's Discussion and Analysis of Financial Condition and Results of Operations - "Critical Accounting Policies" - contained in our annual report on Form 10-K for the year ended June 30, 2007.

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

#### Forward Looking Statements

The Management's Discussion and Analysis of Results of Operations and Financial Condition and other portions of this report contain forward-looking statements within the meaning of federal securities laws. Actual results are subject to risks and uncertainties, including both those specific to the Company and those specific to the industry, which could cause results to differ materially from those contemplated. The risks and uncertainties include, but are not limited to, the matters detailed at Risk Factors in its Annual Report on Form 10-K for the fiscal year ended June 30, 2007. Undue reliance should not be placed on the forward-looking statements. The Company does not undertake any obligation to publicly update any forward-looking statements.

#### CONCLUSION

The Company's results of operations and its financial position continue to be strong with increased earnings and gross profit for the three and nine months ended March 31, 2008. This reflects the continuing attitude of cooperation and commitment by each employee, management's ongoing cost control efforts and our commitment to deliver top quality products and services to the markets we serve.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

of operations.

#### ITEM 4. CONTROLS AND PROCEDURES

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.

#### PART II. OTHER INFORMATION

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

##### (c) Issuer Purchases of Equity Securities

The following shares of the Company were repurchased for the three month period ended March, 31, 2008:

Period

---

Total  
Number of  
Shares  
Purchased

---

Average  
Price of  
Share

---

Total Number of  
Shares Purchased  
as Part of Publicly  
Announced Plans

---

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

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January 1-31, 2008

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|                     |           |
|---------------------|-----------|
|                     | 1,749,817 |
|                     | \$        |
|                     | 23.70     |
|                     | 1,749,817 |
|                     | 239,971   |
| February 1-29, 2008 |           |
|                     | 150,000   |
|                     | \$        |
|                     | 24.55     |
|                     | 150,000   |
|                     | 5,089,971 |
| March 1-31, 2008    |           |
|                     | 0         |
|                     | \$        |
|                     | -         |
|                     | 0         |
|                     | 5,089,971 |
|                     | _____     |
|                     | _____     |
|                     | _____     |
|                     | _____     |
|                     | _____     |
|                     | _____     |
|                     | _____     |
|                     | _____     |
| Total               |           |
|                     | 1,899,817 |
|                     | \$        |
|                     | 23.77     |
|                     | 30        |

1,899,817

5,089,971

(1)

Purchases made under the stock repurchase authorization approved by the Company's Board of Directors on October 4, 2002 in the original amount of 3.0 million shares, and on May 2, 2005 it was increased by 2.0 million shares, and on August 28, 2006 it was increased by 5.0 million shares. On February 4, 2008, the Company's Board of Directors approved a 5.0 million share increase to the stock repurchase authorization. These authorizations have no specific dollar or share price targets and no expiration dates.

## ITEM 6.

## EXHIBITS

- 31.1 Certification of the Chief Executive Officer dated May 9, 2008.
- 31.2 Certification of the Chief Financial Officer dated May 9, 2008.
- 32.1 Written Statement of the Chief Executive Officer dated May 9, 2008.
- 32.2 Written Statement of the Chief Financial Officer dated May 9, 2008.

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**SIGNATURES**

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

JACK HENRY &amp; ASSOCIATES, INC.

Date: May 9, 2008

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

Date: May 9, 2008

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