HENRY JACK & ASSOCIATES INC
Form 10-Q
November 08, 2007

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

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to ________________

Commission file number 0-14112

JACK HENRY & ASSOCIATES, INC.

(Exact name of registrant as specified in its charter)

Delaware	43-1128385
State or Other Jurisdiction of Incorporation	I.R.S Employer Identification No.

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

Address of Principle Executive Offices
(Zip Code)

417-235-6652

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes [X] No [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of October 29, 2007, Registrant has 89,517,395 shares of common stock outstanding ($0.01 par value)

JACK HENRY & ASSOCIATES, INC.

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ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2007	June 30, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 54,527	$ 88,617
Investments, at amortized cost	981	989
Receivables	132,153	209,242
Prepaid expenses and other	23,020	24,130

Prepaid cost of product	23,728	24,147
Deferred income taxes	3,260	3,260
Total current assets	237,669	350,385
PROPERTY AND EQUIPMENT, net	248,486	249,882
OTHER ASSETS:		
Prepaid cost of product	12,744	15,009
Computer software, net of amortization	61,944	59,190
Other non-current assets	10,852	10,754
Customer relationships, net of amortization	64,133	61,248
Trade names	4,009	4,009
Goodwill	262,015	248,863
Total other assets	415,697	399,073
Total assets	$ 901,852	$ 999,340
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,292	$ 11,481
Accrued expenses	29,356	34,920
Accrued income taxes	14,734	17,882
Note payable and current maturities of capital lease	284	70,503
Deferred revenues	159,523	195,691
Total current liabilities	210,189	330,477
LONG TERM LIABILITIES:		
Deferred revenues	16,030	16,865
Deferred income taxes	51,208	53,290
Other long-term liabilities, net of current maturities	7,819	343
Total long term liabilities	75,057	70,498
Total liabilities	285,246	400,975
STOCKHOLDERS' EQUITY		
Preferred stock - $1 par value; 500,000 shares authorized, none issued	-	-
Common stock - $0.01 par value: 250,000,000 shares authorized;		
Shares issued at 09/30/07 were 96,700,137		
Shares issued at 06/30/07 were 96,203,030	967	962
Additional paid-in capital	272,280	262,742
Retained earnings	498,726	484,845

Less treasury stock at cost 7,300,967 shares at 09/30/07, 7,100,967 shares at 06/30/07	(155,367)	(150,184)
Total stockholders' equity	616,606	598,365
Total liabilities and stockholders' equity	$ 901,852	$ 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 September 30,	
	2007	2006
REVENUE		
License	$ 13,522	$ 15,539
Support and service	138,362	115,577
Hardware	23,442	19,499
Total	175,326	150,615
COST OF SALES		
Cost of license	770	556
Cost of support and service	87,736	73,050
Cost of hardware	17,298	13,702
Total	105,804	87,308
GROSS PROFIT	69,522	63,307
OPERATING EXPENSES		
Selling and marketing	13,952	11,966
Research and development	9,959	8,516
General and administrative	9,808	9,906
Total	33,719	30,388
OPERATING INCOME	35,803	32,919
INTEREST INCOME (EXPENSE)		
Interest income	1,349	1,556
Interest expense	(83)	(216)

Total		1,266		1,340
INCOME BEFORE INCOME TAXES		37,069		34,259
PROVISION FOR INCOME TAXES		13,530		12,847
NET INCOME	$	23,539	$	21,412
Diluted net income per share	$	0.26	$	0.23
Diluted weighted average shares outstanding		90,833		92,893
Basic net income per share	$	0.26	$	0.24
Basic weighted average shares outstanding		89,168		91,056

See notes to condensed consolidated financial statements

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

Three Months Ended

September 30,

2007

2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income

$ 23,539

$ 21,412

Adjustments to reconcile net income from operations

to cash from operating activities:

Depreciation	9,533	9,063
Amortization	4,872	2,855
Deferred income taxes	836	1,995
Expense for stock-based compensation	111	148
(Gain) loss on disposal of property and equipment	245	1
Other, net	(11)	-
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	77,733	61,527
Prepaid expenses, prepaid cost of product, and other	4,030	1,718
Accounts payable		

	(5,307)	(9,174)
Accrued expenses	(5,854)	(4,494)
Income taxes	(1,673)	6,239
Deferred revenues	(38,926)	(29,825)
Net cash from operating activities	69,128	61,465
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for acquisitions, net of cash acquired	(17,365)	(1,974)
Capital expenditures	(9,673)	(8,117)
Proceeds from sale of property and equipment	2,069	-
Computer software developed		

	(5,652)	(4,768)
Proceeds from investments	1,000	2,110
Purchase of investments	(981)	(1,638)
Other, net	(72)	34
Net cash from investing activities	(30,674)	(14,353)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Note payable, net	(69,925)	(50,037)
Purchase of treasury stock	(5,183)	(19,833)
Dividends paid	(5,807)	(5,010)
Excess tax benefits from stock-based compensation		

	1,141	419
Proceeds from issuance of common stock upon exercise of stock options	6,987	2,886
Proceeds from sale of common stock, net	243	166
Net cash from financing activities	(72,544)	(71,409)
NET CHANGE IN CASH AND CASH EQUIVALENTS	$ (34,090)	$ (24,297)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 88,617	$ 74,139
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 54,527	$ 49,842

Net cash paid for income taxes was $13,227 and $4,194 for the three months ended September 30, 2007 and 2006, respectively. The Company paid interest of $542 and $671 for the three months ended September 30, 2007 and 2006, 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

Our pre-tax operating income for the quarters ended September 30, 2007 and 2006 includes $111 and $148 of stock-based compensation costs, respectively.

Changes in stock options outstanding and exercisable are as follows:

Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value

Outstanding July 1, 2007	5,389	$ 16.24	
Granted	-	-	
Forfeited	-	-	
Exercised	(487)	14.17	
Outstanding September 30, 2007	4,902	$ 16.45	$ 46,806
Exercisable September 30, 2007	4,856	$ 16.42	$ 46,473

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. As of September 30, 2007, 130 shares of restricted stock have been issued; however, none of these shares have vested.

The following table summarizes non-vested share awards as of September 30, 2007, as well as activity for the three months then ended:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares at June 30, 2007	-	$ -
Granted	130	24.64
Vested	-	-
Forfeited	-	-
Non-vested shares at September 30, 2007	130	$ 24.64

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 dividends to be declared during the restriction period.

At September 30, 2007, there was $147 of compensation expense that has yet to be recognized related to stock options, which will be recognized over a weighted average period of 0.74 years. Related to non-vested restricted stock share awards, there was $3,140 of compensation expense that has yet to be recognized as of September 30, 2007, which will be recognized over a weighted average period of 4.39 years.

COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended September 30, 2007 and 2006 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 additional shares. During the first quarter of fiscal 2008, the Company repurchased 200 treasury shares for $5,183. The total cost of treasury shares at September 30, 2007 is $155,367. At September 30, 2007, there were 7,301 shares remaining in treasury stock and the Company had the authority to repurchase up to 2,690 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 fiscal 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 September 30, 2007, and the results of its operations and its cash flows for the three-month periods ended September 30, 2007 and 2006.

The results of operations for the period ended September 30, 2007 are not necessarily indicative of the results to be expected for the entire year.

NOTE 2.   ADDITIONAL INTERIM FOOTNOTE INFORMATION

The following additional information is provided to update the notes to the Company's annual consolidated financial statements for the developments during the three months ended September 30, 2007.

ACQUISITION

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, $17,419 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 $(454) to working capital, $779 to property and equipment, $4,859 to customer relationships, and $12,235 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 a 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.

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 September 30,			
	2007		2006	
Revenue	$	175,326	$	153,661
Gross profit		69,522		65,929
Net Income	$	23,539	$	22,350
Earnings per share - diluted	$	.26	$	0.24
Diluted Shares		90,833		92,893
Earnings per share - basic	$	0.26	$	0.25
Basic Shares		89,168		91,056

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 (7.75% at September 30, 2007). The credit line expires March 7, 2008 and is secured by $1,000 of investments. At September 30, 2007, no amount was outstanding.

The Company obtained a bank credit line on April 28, 2006 which provides for funding of up to $5,000 and bears interest at the bank's prime rate less 1% (6.75%

at September 30, 2007). The credit line matures on April 30, 2008. At September 30, 2007, no amount was outstanding.

An unsecured revolving bank credit facility allows short-term borrowings of up to $150,000 which may be increased by the Company at any time until maturity to $225,000. The unsecured revolving bank credit facility bears interest at a rate equal to (a) LIBOR or (b) an alternate base rate (the greater of (a) the Federal Funds Rate plus ½% 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 September 30, 2007, no amount was outstanding.

During the prior two fiscal years, the Company has entered into various capital lease obligations for the use of certain computer equipment totaling $1,168. Those amounts are included in property and equipment and the related depreciation is included in total depreciation expense. At September 30, 2007, $455 was outstanding, of which $284 is included in current maturities.

During the quarter ended September 30, 2007, the Company incurred interest totaling $173, $90 of which was capitalized.

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 achievement of a superior return on average assets in comparison with a group of peer companies selected by the Compensation Committee.

The Company has also entered into agreements that provide its executive officers with compensation totaling two years' base salary and 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.

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 derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penaltie