

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): January 25, 1999

JACK HENRY & ASSOCIATES, INC.  
(Exact name of Registrant as specified in its Charter)

Delaware	0-14112	43-1128385
(State or other jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

663 Highway 60, P.O. Box 807, Monett, MO 65708  
(Address of principal executive offices)(zip code)

Registrant's telephone number, including area code: (417) 235-6652

ITEM 5. OTHER EVENTS

On December 16, 1998 Jack Henry & Associates, Inc. (the Company) exchanged 826,931 shares of its common stock for all the outstanding shares of Peerless Group, Inc. (Peerless). The transaction was accounted for as a pooling of interests. The Company's revenues, income before income taxes and net income for the 30 calendar day period ended January 15, 1999 were \$14.4 million, \$1.9 million and \$1.2 million, respectively. The revenue and net income amounts set forth above include 30 days of combined operating results for the Company and Peerless. This information is reported for purposes of complying with the Securities and Exchange Commission's Accounting Series Release 135. This information includes operations from the Company's second and third quarters of fiscal year 1999 and is not necessarily indicative of the results of operations for the quarters ending December 31, 1998 or March 31, 1999 or the fiscal year ending June 30, 1999.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

Item 7 of the Company's Current Report on Form 8-K dated December 17, 1998, is hereby amended as set forth below. The exhibits referenced therein are not amended hereby.

As previously reported on a Current Report on Form 8-K dated December 17, 1998, the Company acquired all of the outstanding common stock of Peerless effective December 16, 1998 in exchange for 826,931 shares of the Company's common stock. As a result of the transaction, Peerless became a wholly owned subsidiary of the Company.

(a) Financial Statements of Business Acquired

Audited

Report of Ernst & Young LLP, Independent Auditors;

Consolidated Balance Sheets as of December 31, 1997 and 1996;

Consolidated Statements of Income for the years ended December 31, 1997, 1996 and 1995;

Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 1997, 1996 and 1995;

Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995; and

Notes to Consolidated Financial Statements.

Unaudited

Consolidated Balance Sheets as of September 30, 1998 and December 31, 1997;

Consolidated Statements of Income for three months and six months ended September 30, 1998 and 1997;

Consolidated Statements of Cash Flows for nine months ended September 30, 1998 and 1997; and

Notes to Consolidated Financial Statements.

(b) Pro Forma Financial Information

Unaudited Pro Forma Combined Balance Sheet as of September 30, 1998;

Unaudited Pro Forma Combined Statement of Operations for the three months ended September 30, 1998;

Unaudited Pro Forma Combined Statement of Operations for the years ended June 30, 1998, 1997 and 1996; and

Notes to Unaudited Pro Forma Combined Financial Information.

(c) Exhibits

23.1 Consent of Ernst & Young LLP

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: January 25, 1999 JACK HENRY & ASSOCIATES, INC.  
(Registrant)

By: /s/ Michael E. Henry

Michael E. Henry  
Chairman of the Board

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors  
Peerless Group, Inc.

We have audited the accompanying consolidated balance sheets of Peerless Group, Inc. (the Company), as of December 31, 1997 and 1996, and the related consolidated statements of income, cash flows, and stockholders' equity (deficit) for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peerless Group, Inc., at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended

December 31, 1997, in conformity with generally accepted accounting principles.  
ERNST & YOUNG, LLP

Dallas, Texas  
January 20, 1998

PEERLESS GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)  
ASSETS (NOTE 4)

	DECEMBER 31,	
	1997	1996
Current assets:		
Cash and cash equivalents	\$2,845	\$8,378
Trade accounts receivable	9,346	5,712
Prepaid expenses and other current assets	1,152	541
Total current assets	13,343	14,631
Computer and other equipment, at cost	4,337	2,335
Less accumulated depreciation	1,135	589
	3,202	1,746
Computer software, maintenance contracts, and other assets, net of accumulated amortization of \$396 and \$1,482 at December 31, 1997 and 1996, respectively	897	982
Investment in preferred stock, at cost	2,500	-
Total assets	\$19,942	\$17,359

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable . . . . .	\$3,014	\$1,865
Accrued liabilities . . . . .	1,002	1,041
Sales tax payable . . . . .	646	568
Unearned revenues . . . . .	7,121	7,573
Total current liabilities . . . . .	11,783	11,047
Commitments (Note 6)		
Stockholders' equity (Notes 4 and 8):		
Preferred stock, \$.01 par value:		
Authorized shares 5,000		
Issued shares none		
Common stock, \$.01 par value:		
Authorized shares 10,000		
Issued shares 4,948 and 4,598 at December 31, 1997 and 1996, respectively	49	46
Additional paid-in capital . . . . .	7,958	7,720
Retained earnings (deficit) . . . . .	649	(1,254)
Treasury stock, at cost (73 and 1 at December 31, 1997 and 1996, respectively) . . . . .	(379)	(1)
Unearned compensation . . . . .	(118)	(199)
Total stockholders' equity . . . . .	8,159	6,312
Total liabilities and stockholders' equity . . . . .	\$19,942	\$17,359

See accompanying notes

PEERLESS GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Revenues:			
Software license and installation . . . . .	\$10,339	\$9,987	\$7,181
Hardware and equipment . . . . .	11,171	10,303	6,727
Maintenance and services . . . . .	8,621	6,235	5,782

Total revenues . . . . .	30,131	26,525	19,690
Cost of revenues:			
Hardware and equipment . . . . .	8,528	7,754	5,258
Software license and installation, maintenance and services . . . . .	11,794	8,882	6,872
Total cost of revenues . . . . .	20,322	16,636	12,130
Gross margin . . . . .	9,809	9,889	7,560
Operating costs and expenses:			
Research and development . . . . .	2,004	1,696	1,398
Selling and marketing . . . . .	3,412	3,477	2,502
General and administrative . . . . .	2,216	1,512	1,222
Severance charge (Note 11) . . . . .	-	341	-
Total operating costs and expenses . . . . .	7,632	7,026	5,122
Income from operations . . . . .	2,177	2,863	2,438
Other income (expense):			
Interest expense . . . . .	(20)	(548)	(612)
Interest income . . . . .	280	133	68
Total other income (expense) . . . . .	260	(415)	(544)
Income before income taxes . . . . .	2,437	2,448	1,894
Provision for income taxes . . . . .	534	155	64
Net income . . . . .	\$1,903	\$2,293	\$1,830
Basic earnings per share . . . . .	\$0.40	\$0.82	\$0.90
Diluted earnings per share . . . . .	\$0.37	\$0.55	\$0.49
Shares used in computing basic earnings per share	4,712	2,745	1,976
Shares used in computing diluted earnings per share	5,130	4,055	3,648

See accompanying notes.

PEERLESS GROUP, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	NUMBER OF SHARES	TREASURY STOCK	
	NUMBER OF SHARES	AMOUNT				NUMBER OF SHARES	AMOUNT
Balance at December 31, 1994	2,080	\$20	\$(3,948)	\$(5,377)	237	\$(281)	\$ -
Net income . . .	-	-	-	1,830	-	-	-
Common stock issued, net of unearned compensation	162	2	291	-	-	-	(195)
Common stock repurchased	-	-	141	-	67	(154)	-
Accretion of redeemable common stock	-	-	(58)	-	-	-	-
Balance at December 31, 1995	2,242	22	(3,574)	(3,547)	304	(435)	(195)
Net income	-	-	-	2,293	-	-	-
Common stock issued upon exercise of warrants	506	5	8	-	-	-	-
Common stock issued upon exercise of options	79	1	79	-	-	-	-
Common stock issued, net of unearned compensation	45	1	295	-	-	-	(4)
Common stock repurchased	-	-	-	-	8	(9)	-
Cancellation of treasury stock upon change-of-domicile	(311)	(3)	(440)	-	(311)	443	-
Common stock issued upon initial public offering	2,037	20	10,117	-	-	-	-
Accretion of redeemable common stock	-	-	(44)	-	-	-	-
Compensation expense on options	-	-	268	-	-	-	-
Reclassification of redeemable common stock upon exercise of underlying options	-	-	1,011	-	-	-	-
Balance at December 31, 1996	4,598	46	7,720	(1,254)	1	(1)	(199)
Net income	-	-	-	1,903	-	-	-
Common stock issued upon exercise of warrants	182	2	3	-	-	-	-
Common stock issued upon exercise of options	168	1	247	-	-	-	-
Common stock issued, net of unearned compensation	-	-	1	-	(2)	10	72
Common stock issued, employee stock purchase plan	-	-	(13)	-	(30)	202	-
Common stock repurchased	-	-	-	-	104	(590)	9
Balance at December 31, 1997	4,948	\$49	\$7,958	\$649	73	\$(379)	\$(118)

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
<b>OPERATING ACTIVITIES</b>			
Net income	\$1,903	\$2,293	\$1,830
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization . . . . .	1,052	757	523
Compensation expense . . . . .	83	366	54
Changes in operating assets and liabilities:			
Trade accounts receivable . . . . .	(3,634)	(1,506)	(584)
Prepaid expenses and other current assets	(660)	(451)	34
Accounts payable and accrued liabilities	1,188	812	939
Unearned revenues	(452)	(594)	(87)
Net cash provided by (used in) operating activities	(520)	1,677	2,709
<b>INVESTING ACTIVITIES</b>			
Additions to computer and other equipment	(2,246)	(1,419)	(381)
Investment in preferred stock	(2,500)	-	-
Other	(120)	(160)	-
Net cash used in investing activities	(4,866)	(1,579)	(381)
<b>FINANCING ACTIVITIES</b>			
Note receivable from officer	-	271	-
Proceeds from borrowings	-	-	4,111
Payments on borrowings	-	(3,627)	(5,953)
Issuance of common stock	297	94	30
Purchase of treasury stock	(436)	(9)	(140)
Net proceeds from initial public offering	-	10,137	-
Other	(8)	20	(63)
Net cash provided by (used in) financing activities	(147)	6,886	(2,015)
Net increase (decrease) in cash and cash equivalents	(5,533)	6,984	313
Cash and cash equivalents at beginning of period	8,378	1,394	1,081
Cash and cash equivalents at end of period	\$2,845	\$8,378	\$1,394
<b>SUPPLEMENTAL CASH FLOWS INFORMATION</b>			
Cash paid for interest	\$19	\$542	\$737
Cash paid for income taxes	\$545	\$265	\$38

See accompanying notes.

PEERLESS GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

## DESCRIPTION OF THE COMPANY

Peerless Group, Inc., formerly known as TPG Holdings, Inc. (the Company), is a computer software company which develops and provides banking and credit union software systems and services. The Company markets these systems along with the computer equipment (hardware) to financial institutions primarily located in the United States and Canada and provides conversion, support, and maintenance and outsourcing services to customers using the systems. In conjunction with the initial public offering of its common stock on October 3, 1996 (the Offering), TPG Holdings, Inc. formed a new wholly-owned Delaware subsidiary, Peerless Group, Inc., and TPG Holdings, Inc., was merged into this new corporation. The financial statements included herein reflect the merger and resulting change in capitalization as all share and per share amounts have been retroactively restated to reflect the merger. In conjunction with this change in capitalization, all treasury shares outstanding were canceled.

The consolidated financial statements of the Company include the accounts of the Company and all its subsidiaries. All significant intercompany transactions and balances are eliminated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of money market funds, certificates of deposit and Treasury Bills with original purchased maturities of three months or less.

## DEPRECIATION

Depreciation is provided on computer and other equipment using the straight-line method over a five- to ten-year estimated useful life.

#### COMPUTER SOFTWARE AND MAINTENANCE CONTRACTS

Computer software and maintenance contracts consist of fair values assigned to acquired software and maintenance contracts. The amounts are being amortized on a straight-line basis over the estimated economic benefit period of five years. The amounts amortized and charged to cost of sales were approximately \$358,000, \$403,000, and \$308,000 in 1997, 1996 and 1995, respectively.

#### CAPITALIZED SOFTWARE

The Company expenses all software development costs as incurred until technological feasibility has been established for the product, at which time the costs are capitalized until the product is available for general release to customers.

PEERLESS GROUP, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### REVENUE RECOGNITION

The Company's sources of revenue and the methods of revenue recognition are as follows:

Software license and installation Revenues from software contracts involving installation are recognized when the installation is performed according to contractual terms, which, in the case of long-term contracts, involves the use of the percentage-of-completion method of accounting. Progress towards completion is measured based upon the percentage relationship that costs incurred to date bear to total estimated costs to complete the installation. Revenues from license fees not involving installation are recognized upon delivery of the software to the customer when no significant vendor obligations remain.

Hardware and equipment Commissions and revenues from hardware and equipment sales are recognized upon shipment by the manufacturer.

Maintenance and services Revenues from maintenance and service contracts are recognized ratably over the periods of the respective contracts. Revenues from data and check and statement imaging processing services are recognized in the period in which the services are performed.

##### UNEARNED REVENUES

Deposits received and amounts billed for software licenses, installation and hardware in advance of installation or delivery, and for annual software maintenance prior to performance of related services, are reflected as unearned until such amounts are recognized in accordance with the Company's revenue recognition policy.

##### FINANCIAL INSTRUMENTS AND RISK CONCENTRATION

Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and unearned revenues are stated at expected settlement values which approximate fair value.

Accounts receivable potentially subject the Company to concentrations of credit risk as the Company markets its products and services primarily to financial institutions throughout the United States and Canada. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral; however, deposits for future services or products are frequently required.

##### STOCK OPTIONS

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations in accounting for its employee stock options because, as discussed in Note 9, the alternative fair value accounting provided for under Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation (Statement 123), requires use of option valuation models that were not developed for use in valuing employee stock options.

PEERLESS GROUP, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### EARNINGS PER SHARE

In February 1997, the Financial Accounting Standards Board issued

Statement of Financial Accounting Standards No. 128, Earnings per Share (Statement 128). Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement 128 requirements.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (Statement 131), which is effective for years beginning after December 15, 1997. Statement 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company will adopt the new requirements retroactively in 1998. Management has not completed its review of Statement 131, but does not anticipate that the adoption of this statement will affect results of operations or financial position, but will affect the disclosure of segment information.

In October 1997, the Accounting Standards Executive Committee of the American Institute of Public Accountants issued Statement of Position (SOP) 97-2, Software Revenue Recognition, which supersedes SOP 91-1. The Company will be required to adopt SOP 97-2 for software transactions entered into beginning January 1, 1998. SOP 97-2 generally requires revenue earned on software arrangements involving multiple elements (i.e., software products, upgrades/enhancements, postcontract customer support, installation, training, etc.) to be allocated to each element based on the relative fair values of the elements. The fair value of an element must be based on evidence which is specific to the vendor. The revenue allocated to software products (including specified upgrades/enhancements) generally is recognized upon delivery of the products. The revenue allocated to postcontract customer support generally is recognized ratably over the term of the support and revenue allocated to service elements (such as training and installation) generally is recognized as the services are performed. If a vendor does not have evidence of the fair value for all elements in a multiple-element arrangement, all revenue from the arrangement is deferred until such evidence exists or until all elements are delivered. The Company's management anticipates that the adoption of SOP 97-2 will not have a material impact on the Company's results of operations.

PEERLESS GROUP, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### CHANGES IN PRESENTATION

Certain prior year amounts have been reclassified to conform to current year presentation.

#### 3. INVESTMENT IN PREFERRED STOCK

In May 1997, the Company purchased 25,000 shares of the preferred stock of Online Resources & Communications Corporation ( Online ), a private electronic financial services company, for \$2.5 million. This preferred stock is convertible into approximately 833,000 shares of Online's common stock. The Company also received warrants to purchase approximately 333,000 shares of Online's common stock at \$3.00 per share. The Company understands that Online is seeking additional financing. If Online is not able to obtain additional financing, the Company may be required to write off some or all of this investment.

#### 4. DEBT AND CREDIT AGREEMENTS

##### LINE OF CREDIT

In January 1997, the Company amended its line of credit agreement with a bank that provides for borrowings up to \$2,500,000, reduced by the value of outstanding letters of credit issued by the bank on behalf of the Company. Borrowings using this line of credit bear interest at the bank's prime rate (8.50% at December 31, 1997) plus .5% and are collateralized by the assets of the Company's wholly owned subsidiaries. The facility will expire on February 1, 1999. No amounts were outstanding on the line of credit at December 31, 1997, and a letter of credit in the amount of \$600,000 was issued by the bank on behalf of the Company at that date.

The line of credit agreement contains restrictive covenants, the most significant of which relate to minimum defined annual net income, quarterly cash flow and the restriction on the payment of cash dividends. At December 31, 1997, the Company was in compliance with such covenants.

Under the terms of the line of credit agreement, the bank was issued a warrant to purchase at any time on or before October 1, 2002, 115,680 shares of the Company's common stock at a purchase price of \$5.42 per share. Included in the warrant agreement was a provision allowing the bank to put the warrant back to the Company at any time after October 1, 1999, at a price equal to the then-current market price of the Company's common stock. No value was assigned to the warrant at the date of issuance and no accretion was recorded, as the Company determined that there was no significant value separately assignable to the warrant and put option. In June 1996, the line of credit agreement was

amended such that the provision allowing the bank to put the warrant back to the Company was terminated.

PEERLESS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. DEBT AND CREDIT AGREEMENTS (CONTINUED)

LONG-TERM DEBT DUE TO RELATED PARTIES

The Company repaid all of its debt upon completion of the Offering. In prior years, the terms of certain Subordinated Debentures and Acquisition notes included warrants to purchase up to 65% of the Company's common stock by the holders of the Subordinated Debentures (the Holders). After giving effect to several transactions, including the repurchase of warrants for \$3,776,000 in cash and notes, which were recorded as reductions to additional paid-in-capital, the Holders had warrants to purchase 37.5% of the outstanding common stock of the Company at December 31, 1995. In June 1996, the Holders exercised warrants to purchase 505,710 shares of the Company's common stock, and in October 1996, in conjunction with the Offering, they sold warrants to the underwriters to purchase 597,360 shares of the Company's common stock. In December 1997, the Holders exercised warrants to purchase an additional 181,654 shares of the Company's common stock. Therefore, at December 31, 1997, the Holders own warrants to purchase 181,654 shares of the Company's common stock. The warrants are exercisable at a price of \$0.025 per share and expire in October, 2000.

5. INCOME TAXES

The Company uses the liability method in accounting for income taxes as required by Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes. The components of the provision for income taxes are as follows (in thousands):

	DECEMBER 31,		
	1997	1996	1995
Current:			
Federal	\$312	\$51	\$38
State	124	362	26
Total Current	<u>436</u>	<u>413</u>	<u>64</u>
Deferred:			
Federal	70	(245)	-
State	28	(13)	-
Total Deferred	<u>98</u>	<u>(258)</u>	<u>-</u>
Total provision for income taxes	<u>\$534</u>	<u>\$155</u>	<u>\$64</u>

PEERLESS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. INCOME TAXES (CONTINUED)

The effective income tax rate on income before income taxes differed from the Federal income tax statutory rate for the following reasons (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Income tax charge:			
At Federal statutory rate	\$824	\$832	\$644
Unbenefitted (utilized) net operating losses	(832)	(644)	-
Benefit of research and development tax credits	(459)	-	-
Federal alternative minimum tax	-	48	38
Deferred federal benefit relating to the elimination of the valuation allowance	-	(245)	-
State income tax	96	271	26
Other	73	81	-
	<u>\$534</u>	<u>\$155</u>	<u>\$64</u>

Given the historical trends in generating taxable income and the expected future earnings, in the fourth quarter of 1996 the Company determined that it was more likely than not that its net deferred tax assets would be realized. As a result of the Company's judgement, the valuation allowance was eliminated and a deferred tax benefit of approximately \$250,000 was recorded.

During the three months ended September 30, 1997, the Company identified research and development tax credits totaling \$459,000. As a result, the estimated effective tax rate for the fiscal year was lowered to 21.9%. As of December 31, 1997, the Company had \$302,000 of research and development tax credits available for carryforward to future periods. These credits begin to expire in 2008.

The significant components of the Company's deferred tax assets and liabilities consist of the following (in thousands):



	DECEMBER 31,	
	1997	1996
Deferred tax assets:		
Alternative minimum tax credit carryforward	\$ -	\$ 85
Net operating loss carryforwards	-	65
Compensation expense on options	-	103
Research and development tax credits	302	-
Allowance for bad debts	52	-
Other	43	24
	<hr/>	<hr/>
Total deferred tax assets	397	277
Deferred tax liabilities:		
Prepaid expenses	185	-
Amortization	51	19
	<hr/>	<hr/>
Total deferred tax liabilities	236	19
Deferred income tax assets, net of deferred income tax liabilities	\$161	\$258

PEERLESS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. LEASE COMMITMENTS

In May 1997, the Company entered into an agreement to lease a building and certain real property for fifteen years. This operating lease requires monthly base rent payments of approximately \$84,000 plus operating expenses and taxes, with the monthly base rent amount escalating every five years during the lease term. The lease is expected to commence in the third quarter of 1998. The Company intends to sublease certain of its existing facilities upon moving to the new facility.

Minimum noncancelable lease payments required under operating leases for the years subsequent to December 31, 1997, are as follows (in thousands):

YEAR	NEW LEASE	EXISTING LEASES	TOTAL
1998	\$ 505	\$ 396	\$ 901
1999	1,009	356	1,365
2000	1,009	320	1,329
2001	1,009	160	1,169
2002	1,009	65	1,074
Thereafter	12,994	6	13,000

Rental expense totaled approximately \$323,000, \$269,000, and \$247,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

7. EMPLOYEE 401(K) PLAN

The Company has a plan which provides retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code (the Plan) for substantially all employees who have completed a specified term of service. The Company's contributions equal 50% of employee contributions, up to a maximum of 6% of eligible employee compensation, as defined. Benefits under the Plan are limited to the assets of the Plan. Contributions by the Company charged to expense during the years ended December 31, 1997, 1996 and 1995, were approximately \$128,000, \$122,000, and \$90,000, respectively.

8. COMMON STOCK

In July 1996, the Company adopted an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended. Under the employee stock purchase plan, employees may make annual purchases of the Company's common stock at a price equal to 85% of the market value of the common stock on certain specified dates. The Company has reserved 250,000 shares of its common stock for issuance under the employee stock purchase plan.

During 1997 and 1996, the Company issued 1,675 and 19,620 shares, respectively, of restricted stock to employees at weighted-average fair values of \$6.38 and \$5.38 per share, respectively. The Company recorded approximately \$10,000 and \$102,000, respectively, of unearned compensation for the excess of the deemed value for accounting purposes of the common stock issued over the proceeds received upon issuance. The unearned compensation is charged to expense ratably over the vesting period of the common stock. During 1997 and 1996, approximately \$83,000 and \$98,000 was charged to operations.

PEERLESS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. STOCK OPTIONS

The Board of Directors and the stockholders of the Company approved the Peerless Group, Inc. 1997 Stock Option Plan (the Plan) effective as of April 22, 1997. The Plan reserves 450,000 shares of the Company's common stock for

future issuance. Each option to be granted under the Plan will be exercisable as provided by the terms of each option, but in no case longer than ten years from the date of the option's grant. Historically, the Company's options have generally vested 20% on the date of grant and 20% each year for the following four years, with an exercise period of five years from the date of grant.

A summary of the Company's stock option activity and related information for the years ended December 31 follows (in thousands except for per share data):

	1997		1996		1995	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	433	\$4.14	348	\$1.76	299	\$1.09
Granted-Exercise price exceeds market price on date of grant	170	8.05	10	8.80	24	2.87
Granted-Exercise price equals market price on date of grant	10	4.50	154	7.60	95	2.74
Exercised	(168)	1.48	(79)	1.01	(60)	0.44
Forfeited	(39)	8.00	-	-	(10)	1.93
Outstanding at end of year	406	6.51	433	4.14	348	1.76
Exercisable at end of year	148	\$5.67	241	\$2.53	148	\$1.48
Weighted average fair value of options granted-Exercise price exceeds market price on date of grant		\$1.83		\$1.98		\$0.86
Weighted average fair value of options granted-Exercise price equals market price on date of grant		\$1.97		\$2.22		\$0.99

PEERLESS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. STOCK OPTIONS (CONTINUED)

The total options outstanding at December 31, 1997, included 96,000 options with exercise prices ranging from \$2.60 to \$2.87 and a weighted-average remaining contractual life of 2.0 years; and 310,000 options with exercise prices ranging from \$4.50 to \$8.80 and a weighted-average remaining contractual life of 4.2 years. Exercisable options at December 31, 1997, included 58,800 options with exercise prices ranging from \$2.60 to \$2.87 and a weighted-average exercise price of \$2.67; and 89,540 options with exercise prices ranging from \$4.50 to \$8.80 and a weighted-average exercise price of \$7.64. Under APB 25, because the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997, 1996 and 1995 respectively: risk-free interest rates of 5.82%, 5.79% and 7.37%; volatility factors of the expected market price of the Company's common stock of .502, .347 and .447; and no dividend yields. In addition, the fair value of these options was estimated based on an expected life of one year from the vesting date using the multiple option method.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except for earnings per share information):

	1997	1996	1995
Pro forma net income	\$1,698	\$2,170	\$1,789
Pro forma basic earnings per share	\$0.36	\$0.77	\$0.88
Pro forma diluted earnings per share	\$0.34	\$0.53	\$0.48

The pro forma disclosures only include the effect of options granted subsequent to December 31, 1994. Accordingly, the pro forma information does not reflect the pro forma effect of all previous stock option grants of the Company, and thus is not indicative of future amounts until Statement No. 123 is applied to all outstanding stock options.

#### 10. OPERATIONS

The Company is dependent upon International Business Machines Corporation (IBM) as its principal computer hardware vendor for its financial institution applications systems. Additionally, operating systems on which the Company's products function have been developed by IBM. Since its inception in 1989, the Company has been a value-added remarketer of IBM products pursuant to standard IBM Remarketer Agreements. The Company's current remarketing agreement with IBM expires on February 28, 1999. Both IBM and the Company may, with or without cause, upon three months written notice, terminate the agreement. The Company has no indication that IBM will discontinue the remarketing agreement. The Company believes that its relationships with IBM are good.

PEERLESS GROUP, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### 11. SEVERANCE CHARGE

During the year ended December 31, 1996, the Company incurred a severance charge of \$341,000 related to the resignation of a former officer (\$289,000 of which were non-cash compensation charges related to the extension of the exercise period of certain stock options and the acceleration of vesting of restricted stock awards).

#### 12. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (amounts in thousands except for earnings per share amounts):

	1997	1996	1995
Numerator:			
Net income	\$1,903	\$2,293	\$1,830
Accretion on redeemable common stock	-	(44)	(58)
Numerator for basic and diluted earnings per share	\$1,903	\$2,249	\$1,772
Denominator:			
Denominator for basic earnings per share-weighted average	4,712	2,745	1,976
Effect of dilutive securities:			
Stock options	76	266	169
Warrants	365	1,072	1,503
Employee stock purchase plan	4	-	-
Non-vested stock	(27)	(28)	-
Dilutive potential common shares	418	1,310	1,672
Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions	5,130	4,055	3,648
Basic earnings per share	\$0.40	\$0.82	\$0.90
Diluted earnings per share	\$0.37	\$0.55	\$0.49

Options to purchase 251,200 shares of common stock at \$8.00 per share and 20,000 shares of common stock at \$8.80 per share were outstanding during 1997 but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

#### PEERLESS GROUP, INC. CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

#### ASSETS

	SEPTEMBER 30, 1998 (Unaudited)	DECEMBER 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents . . . . .	\$ 455	\$ 2,845

Trade accounts receivable . . . . .	5,754	9,346
Finished goods inventory . . . . .	1,150	409
Prepaid expenses and other current assets	1,097	743
Total current assets . . . . .	8,456	13,343
Computer and other equipment, at cost . . .	7,229	4,337
Less accumulated depreciation . . . . .	1,823	1,135
Total . . . . .	5,406	3,202
Computer software, maintenance contracts, and other assets, net of accumulated amortization of \$565 and \$396 at September 30, 1998 and December 31, 1997, respectively	719	897
Investment in preferred stock, at cost . .	2,500	2,500
Total assets . . . . .	\$ 17,081	\$ 19,942

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable . . . . .	\$ 1,725	\$ 3,014
Accrued liabilities . . . . .	1,796	1,002
Sales tax payable . . . . .	468	646
Unearned revenues . . . . .	3,398	7,121
Total current liabilities . . . . .	7,387	11,783
Commitments		
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares -- 5,000		
Issued shares -- none		
Common stock, \$.01 par value:		
Authorized shares -- 10,000		
Issued shares -- 4,976 and 4,948 at September 30, 1998 and December 31, 1997, respectively . . . . .	50	49
Additional paid-in capital . . . . .	7,994	7,958
Retained earnings . . . . .	1,992	649
Treasury stock, at cost -- 53 and 73 at September 30, 1998 and December 31, 1997, respectively . . . . .	(289)	(379)
Unearned compensation . . . . .	(53)	(118)
Total stockholders' equity . . . . .	9,694	8,159
Total liabilities and stockholders' equity . . . . .	\$ 17,081	\$ 19,942

See accompanying notes to unaudited consolidated financial statements.

PEERLESS GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	1998	1997	1998	1997
Revenues:				
Software license and installation	\$ 3,136	\$ 1,999	\$ 8,611	\$ 8,041
Hardware and equipment . . . . .	2,023	1,664	5,983	7,958
Maintenance and services . . . . .	2,799	2,216	7,865	6,139
Total revenues . . . . .	7,958	5,879	22,459	22,138
Cost of revenues:				
Hardware and equipment . . . . .	1,550	1,273	4,587	6,052
Software license and installation, maintenance and services . . . . .	3,822	2,676	10,335	8,497
Total cost of revenues . . . . .	5,372	3,949	14,922	14,549
Gross margin . . . . .	2,586	1,930	7,537	7,589
Operating costs and expenses:				
Research and development . . . . .	568	523	1,558	1,530
Selling and marketing . . . . .	560	802	2,024	2,701
General and administrative . . . . .	672	419	1,842	1,730
Total operating costs and expenses . . . . .	1,800	1,744	5,424	5,961
Income from operations . . . . .	786	186	2,113	1,628
Other income:				
Interest expense . . . . .	(3)	(6)	(11)	(16)
Interest income . . . . .	22	32	88	263
Total other income . . . . .	19	26	77	247
Income before income taxes . . . . .	805	212	2,190	1,875
Income tax expense (benefit) . . . . .	309	(218)	847	408
Net income . . . . .	\$ 496	\$ 430	\$ 1,343	\$ 1,467
Basic earnings per share . . . . .	\$ 0.10	\$ 0.09	\$ 0.27	\$ 0.31
Diluted earnings per share . . . . .	\$ 0.10	\$ 0.08	\$ 0.26	\$ 0.28
Shares used in computing basic				

earnings per share . . . . .	4,918	4,734	4,903	4,708
Shares used in computing diluted earnings per share . . . . .	5,166	5,147	5,113	5,151

See accompanying notes to unaudited consolidated financial statements.

PEERLESS GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
<b>OPERATING ACTIVITIES</b>		
Net income . . . . .	\$ 1,343	\$ 1,467
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization . . . . .	938	787
Compensation expense . . . . .	63	63
Changes in operating assets and liabilities:		
Trade accounts receivable . . . . .	3,592	1,021
Prepaid expenses and other current assets . . . . .	(346)	(241)
Finished goods inventory . . . . .	(741)	(137)
Accounts payable and accrued liabilities . . . . .	(518)	(700)
Unearned revenues . . . . .	(3,722)	(4,130)
Net cash provided by (used in) operating activities . . . . .	609	(1,870)
<b>INVESTING ACTIVITIES</b>		
Additions to computer and other equipment . . . . .	(2,975)	(2,136)
Investment in preferred stock . . . . .	-	(2,500)
Other . . . . .	-	(120)
Net cash used in investing activities . . . . .	(2,975)	(4,756)
<b>FINANCING ACTIVITIES</b>		
Issuance of common stock . . . . .	12	107
Purchase of treasury stock . . . . .	(36)	(380)
Other . . . . .	-	(8)
Net cash used in financing activities . . . . .	(24)	(281)
Net decrease in cash and cash equivalents . . . . .	(2,390)	(6,907)
Cash and cash equivalents at beginning of period . . . . .	2,845	8,378
Cash and cash equivalents at end of period . . . . .	\$ 455	\$ 1,471

See accompanying notes to unaudited consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

DESCRIPTION OF THE COMPANY

Peerless Group, Inc. (the "Company") designs, develops, installs and supports integrated information systems, including proprietary computer software and third-party software and hardware, for community banks and credit unions. The Company was incorporated in 1989 when a group of management executives from Electronic Data Systems Corporation ("EDS") purchased EDS's turnkey community bank data processing systems division, which EDS had acquired in 1980. In 1992, the Company acquired and began offering a credit union information software system. In 1994, the Company began marketing a check and statement imaging system that is fully integrated with Peerless21(R), the Company's flagship banking product. In 1996, the Company began an outsourcing service bureau. On October 3, 1996, the Company completed an initial public offering of its Common Stock.

On August 18, 1998, the Company entered into a definitive agreement with Jack Henry & Associates, Inc. ("Jack Henry") for Jack Henry to acquire all of the outstanding common shares of the Company for approximately \$36 million, or \$7.25 per Peerless Group common share.

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three- and nine-month periods ended September 30, 1998 are not necessarily indicative of the results that may be expected for the year ended December 31, 1998. For further information, refer

to the consolidated financial statements and footnotes thereto included in the Peerless Group, Inc. Annual Report on Form 10-K for the year ended December 31, 1997.

The consolidated financial statements of the Company include the accounts of the Company and all its subsidiaries. All significant intercompany transactions and balances are eliminated. Certain prior year amounts have been reclassified to conform to current year presentation.

#### EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (amounts in thousands except for earnings per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	1998	1997	1998	1997
Numerator for basic and diluted earnings per share . . . . .	\$ 496	\$ 430	\$ 1,343	\$ 1,467
Denominator:				
Denominator for basic earnings per share-weighted average shares	4,918	4,734	4,903	4,708
Effect of dilutive securities:				
Stock options . . . . .	77	58	46	87
Warrants . . . . .	181	376	181	378
Employee stock purchase plan . . . . .	1	3	1	3
Non-vested stock . . . . .	(11)	(24)	(18)	(25)
Dilutive potential common shares	248	413	210	443
Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions . . . . .	5,166	5,147	5,113	5,151
Basic earnings per share . . . . .	\$ 0.10	\$ 0.09	\$ 0.27	\$ 0.31
Diluted earnings per share . . . . .	\$ 0.10	\$ 0.08	\$ 0.26	\$ 0.28

#### RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Position 97-2. As of January 1, 1998, the Company adopted AICPA Statement of Position (SOP) 97-2, Software Revenue Recognition, which was effective for transactions that the Company entered into beginning on that date and retroactive application to years prior to adoption was prohibited. The effect of adopting SOP 97-2 has not had a material impact on the Company's results of operations.

Statement of Financial Accounting Standards No. 131. In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, which is effective for years beginning after December 15, 1997. Statement 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The Company will adopt the new requirements retroactively in 1998. Management anticipates that the adoption of Statement 131 will not affect results of operations or financial position, but will affect the disclosure of segment information.

#### UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following unaudited pro forma combined financial information presents the Pro Forma Combined Balance Sheet at September 30, 1998, giving effect to the acquisition of Peerless (which was accounted for as a pooling of interests as described below) as if it had been consummated on that date. Also presented are the Pro Forma Combined Statements of Operations for the three month period ended September 30, 1998 and the fiscal years ended June 30, 1998, 1997 and 1996, giving effect to the acquisition of Peerless as if it had been consummated as of the beginning of the respective periods presented. The Company's fiscal year ends on June 30, Peerless fiscal year ended on December 31.

The pro forma data is based on the historical combined statements of the Company and Peerless giving effect to the Peerless acquisition under the pooling of interests method of accounting and to the assumptions and adjustments (which the Company believes to be reasonable) described in the accompanying Notes to Unaudited Pro Forma Combined Financial Information. Under the pooling of interests method of accounting, the recorded assets and liabilities of the separate entities become the recorded assets and liabilities of the combined entity. The pro forma adjustments set forth in the following unaudited pro forma combined financial information are estimated and may differ from the actual adjustments when they become known; however, no material differences are anticipated by the Company.

The pro forma data is provided for comparative purposes only. It does not purport to be indicative of the results that actually would have occurred if the acquisition of Peerless had been consummated on the date indicated or that may be obtained in the future. The unaudited pro forma combined financial information should be read in conjunction with the financial statements and financial information pertaining to the Company and Peerless included elsewhere herein and documents previously filed with the Securities and Exchange

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES  
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
SEPTEMBER 30, 1998  
(IN THOUSANDS, EXCEPT SHARE DATA)

	JACK HENRY	PEERLESS	PRO FORMA ADJUSTMENT	COMBINED
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 39,025	\$ 455		\$ 39,480
Investments	3,145			3,145
Trade receivables	22,314	5,754		28,068
Prepaid expenses and other	7,520	2,247		9,767
Total	\$ 72,004	\$ 8,456		\$ 80,460
<b>PROPERTY AND EQUIPMENT, NET</b>				
	\$ 33,888	\$ 5,406		\$ 39,294
<b>OTHER ASSETS:</b>				
Intangible assets, net of amortization	\$ 19,721			\$ 19,721
Computer software	2,762	719		3,481
Other non-current assets	1,323	2,500		3,823
	\$ 23,806	\$ 3,219		\$ 27,025
Total	\$129,698	\$ 17,081		\$146,779
<b>Total assets</b>				
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	\$ 5,207	\$ 1,725		\$ 6,932
Accrued expenses	6,591	2,264		8,855
Accrued income taxes	4,834			4,834
Deferred revenue	28,527	3,398		31,925
Total	\$ 45,159	\$ 7,387		\$ 52,546
<b>LONG-TERM DEBT</b>				
DEFERRED INCOME TAXES	\$ 2,526			\$ 2,526
Total Liabilities	\$ 47,685	\$ 7,387		\$ 55,072
<b>STOCKHOLDERS EQUITY:</b>				
JKHY preferred stock; \$1 par value; 500,000 shares authorized; none issued	-	-		-
PLSS preferred stock; \$.01 par value; 5,000,000 shares authorized; none issued	-	-		-
JKHY common stock; \$.01 par value; 50,000,000 shares authorized; shares issued and outstanding - 19,034,279	\$ 190	-	\$ 8	\$ 198
PLSS common stock; \$.01 par value; 10,000,000 shares authorized; shares issued - 4,976,650		\$ 50	\$ (50)	-
Less treasury shares; PLSS - 74,000	-	(289)	289	-
Additional paid-in capital	20,051	7,994	(300)	27,745
Retained earnings	61,772	1,992		63,764
Unearned compensation		(53)	53	-
Total stockholders equity	\$ 82,013	\$ 9,694		\$ 91,707
Total liabilities and stockholders equity	\$129,698	\$ 17,081		\$146,779

JACK HENRY & ASSOCIATES AND PEERLESS GROUP, INC.  
UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

Quarter Ended  
September 30, 1998

	JKHY	PLSS	COMBINED
<b>REVENUES:</b>			
Software Licensing & Installation	\$ 11,659	\$ 3,136	\$ 14,795
Maintenance/Support & Service	11,550	2,799	14,349
Hardware Sales & Commissions	17,519	2,023	19,542

Total	40,728	7,958	48,686
COST OF SALES:			
Cost of Hardware	12,691	1,550	14,241
Cost of Services	8,192	3,822	12,014
Total	\$ 20,883	\$ 5,372	\$ 26,255
GROSS PROFIT	\$ 19,845	\$ 2,586	\$ 22,431
OPERATING EXPENSES:			
Selling and marketing	3,512	560	4,072
Research and development	952	568	1,520
General and administrative	2,439	672	3,111
Total	\$ 6,903	\$ 1,800	\$ 8,703
OPERATING INCOME	\$ 12,942	\$ 786	\$ 13,728
OTHER INCOME (EXPENSE):			
Interest income	445	22	467
Other, net			
Total	35	(3)	32
	\$ 480	\$ 19	\$ 499
INCOME FROM CONTINUING OPERATIONS			
BEFORE INCOME TAXES	\$ 13,422	\$ 805	\$ 14,227
PROVISION FOR INCOME TAXES	5,148	309	5,457
INCOME FROM CONTINUING OPERATIONS	\$ 8,274	\$ 496	\$ 8,770
INCOME FROM DISCONTINUED OPERATIONS	22		
NET INCOME	\$ 8,296	\$ 496	\$ 8,792
As reported:			
Diluted earnings per share	\$ 0.41	\$ 0.10	
Basic earnings per share	\$ 0.44	\$ 0.10	
Shares used in computing diluted earnings per share	20,154	5,166	
Shares used in computing basic earnings per share	18,982	4,918	
Pro Forma:			
Diluted earnings per share			\$ 0.42
Basic earnings per share			\$ 0.44
Shares used in computing diluted earnings per share			20,999
Shares used in computing basic earnings per share			19,811

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	JACK HENRY FYE	PEERLESS FYE	COMBINED FYE	JACK HENRY FYE	PEERLESS FYE	COMBINED FYE	JACK HENRY FYE	PEERLESS FYE	COMBINED FYE
REVENUES:	6/30/98	6/30/98	6/30/98	6/30/97	6/30/97	6/30/97	6/30/96	6/30/96	6/30/96
Software licensing & installation	\$32,988	\$9,772	\$42,760	\$22,955	\$11,388	\$34,343	\$18,111	\$7,774	\$25,885
Maintenance/support & service	35,444	9,764	45,208	27,433	7,211	34,644	22,595	6,015	28,610
Hardware	44,991	8,837	53,828	32,212	11,745	43,957	26,852	8,222	35,074
Total	113,423	28,373	141,796	82,600	30,344	112,944	67,558	22,011	89,569
COST OF SALES:									
Cost of hardware	30,832	6,786	37,618	22,397	8,872	31,269	17,764	6,149	23,913
Cost of servic	24,798	12,486	37,284	18,679	10,505	29,184	15,829	7,610	23,439
Total	55,630	19,272	74,902	41,076	19,377	60,453	33,593	13,759	47,352
GROSS PROFIT	57,793	9,101	66,894	41,524	10,967	52,491	33,965	8,252	42,217
OPERATING EXPENSES:									
Selling and marketing	11,804	2,977	14,781	9,162	3,841	13,003	7,573	2,784	10,357
Research and development	3,132	1,987	5,119	2,045	1,863	3,908	1,775	1,576	3,351
General and administrative	9,081	2,075	11,156	6,076	2,110	8,186	5,411	1,679	7,090
Total	24,017	7,039	31,056	17,283	7,814	25,097	14,759	6,039	20,798
OPERATING INCOME FROM CONTINUING OPERATIONS	33,776	2,062	35,838	24,241	3,153	27,394	19,206	2,213	21,419
OTHER INCOME (EXPENSE):									
Interest income	1,221	115	1,336	660	307	967	541	91	632
Interest expense		(18)	(18)		(229)	(229)		(670)	(670)
Other, net	367		367	186		186	126		126
Total	1,588	97	1,685	846	78	924	667	(579)	88
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES									
OPERATIONS BEFORE INCOME TAXES	35,364	2,159	37,523	25,087	3,231	28,318	19,873	1,634	21,507
PROVISION FOR INCOME TAXES	13,127	446	13,573	9,332	702	10,034	7,605	111	7,716
INCOME FROM CONTINUING OPERATIONS	22,237	1,713	23,950	15,755	2,529	18,284	12,268	1,523	13,791
LOSS FROM DISCONTINUED OPERATIONS	668	-	668	450	-	450	2,620	-	2,620
NET INCOME	\$21,569	\$1,713	\$23,282	\$15,305	\$2,529	\$17,834	\$9,648	\$1,523	\$11,171
As reported:									
Diluted earnings per share	\$ 1.09	\$ 0.34		\$ 0.80	\$ 0.53		\$ 0.51	\$ 0.40	
Basic earnings per share	\$ 1.14	\$ 0.36		\$ 0.85	\$ 0.61		\$ 0.55	\$ 0.73	
Shares used in computing diluted earnings per share	19,761	5,097		19,072	4,787		18,726	3,691	



Shares used in computing basic earnings per share	18,850	4,811	17,977	4,101	17,656	1,998
Pro Forma:						
Diluted earnings per share			\$ 1.13		\$ 0.90	\$ 0.58
Basic earnings per share			\$ 1.19		\$ 0.96	\$ 0.62
Shares used in computing diluted earnings per share			20,584		19,845	19,322
Shares used in computing basic earnings per share			19,627		18,639	17,979

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited pro forma combined financial statements have been prepared in accordance with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the unaudited pro forma combined financial statements have been included therein. These financial statements are not necessarily indicative of the results that would have occurred had the Merger occurred on the indicated dates and not necessarily indicative of the results to be expected for future operations. The unaudited pro forma combined financial information should be read in conjunction with the financial statements and financial information pertaining to the Company and Peerless included elsewhere herein and documents previously filed with the Securities and Exchange Commission by the Company.

EARNINGS PER SHARE INFORMATION

Earnings per common share are computed by dividing income by the diluted and basic (as required by FASB No. 128) weighted average number of shares of common stock and dilutive common stock equivalents outstanding for each of the years and twelve-month periods then ended. For all applicable periods presented in the unaudited pro forma combined statements of income, dilutive and basic common stock and common stock equivalents used in the computation of earnings give effect to the conversion ratio of 0.16145.

CONSENT OF ERNST & YOUNG LLP

We consent to the use of our report dated January 20, 1998, with respect to the financial statements of Peerless Group, Inc. included in the Current Report on Form 8-K/A dated January 25, 1999 of Jack Henry & Associates, Inc. filed with the Securities and Exchange Commission.

January 25, 1999

