

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, 2004

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 Exchange Act Rule 12b-2 of the Exchange Act.) Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of October 26, 2004, Registrant has 90,456,308 shares of common stock  
outstanding (\$.01 par value)

JACK HENRY & ASSOCIATES, INC.  
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PART 1. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2004	June 30, 2004
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 119,845	\$ 53,758
Investments, at amortized cost	998	998
Trade receivables	75,294	169,873
Prepaid expenses and other	13,188	14,023
Prepaid cost of product	16,140	19,086
Deferred income taxes	1,570	1,320
	-----	-----
Total	227,035	259,058
PROPERTY AND EQUIPMENT, net	220,491	215,100
OTHER ASSETS:		
Prepaid cost of product	7,466	6,758
Computer software, net of amortization	19,215	18,382
Other non-current assets	5,356	5,791
Customer relationships, net of amortization	60,024	61,368
Trade names	4,029	4,029
Goodwill	89,677	83,128
	-----	-----
Total	185,767	179,456
	-----	-----
Total assets	\$ 633,293	\$ 653,614
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 5,154	\$ 9,171
Accrued expenses	14,724	21,509
Accrued income taxes	8,897	6,258
Deferred revenues	106,882	136,302
	-----	-----
Total	135,657	173,240
DEFERRED REVENUES	8,348	8,694
DEFERRED INCOME TAXES	30,055	28,762
	-----	-----
Total liabilities	174,060	210,696
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 9/30/04 and 6/30/04 were 90,519,856	905	905
Additional paid-in capital	176,298	175,706
Retained earnings	283,543	271,433
Less treasury stock at cost 93,148 shares at 9/30/04, 315,651 shares at 6/30/04	(1,513)	(5,126)
	-----	-----
Total stockholders' equity	459,233	442,918
	-----	-----
Total liabilities and stockholders' equity	\$ 633,293	\$ 653,614
	=====	=====

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,	
	2004	2003
REVENUE		
License	\$ 19,551	\$ 12,960
Support and service	83,648	72,524
Hardware	20,897	23,456
Total	124,096	108,940
COST OF SALES		
Cost of licens	1,609	913
Cost of support and service	56,030	49,049
Cost of hardware	15,895	16,321
Total	73,534	66,283
GROSS PROFIT	50,562	42,657
OPERATING EXPENSES		
Selling and marketing	10,732	8,772
Research and development	6,142	5,319
General and administrative	7,465	7,005
Total	24,339	21,096
OPERATING INCOME	26,223	21,561
INTEREST INCOME (EXPENSE)		
Interest income	459	287
Interest expense	(3)	(26)
Total	456	261
INCOME BEFORE INCOME TAXES	26,679	21,822
PROVISION FOR INCOME TAXES	10,005	7,965
NET INCOME	\$ 16,674	\$ 13,857
Diluted net income per share	\$ 0.18	\$ 0.15
Diluted weighted average shares outstanding	92,485	91,069
Basic net income per share	\$ 0.18	\$ 0.16
Basic weighted average shares outstanding	90,286	88,515

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 16,674	\$ 13,857
Adjustments to reconcile net income from operations to cash from operating activities:		
Depreciation	6,905	6,408
Amortization	2,052	1,550
Deferred income taxes	1,043	2,095
Loss on disposal of property and equipment	285	4
Other, net	(3)	(2)
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables	94,617	85,357
Prepaid expenses, prepaid cost of product, and other	3,458	1,062
Accounts payable	(4,036)	(1,925)
Accrued expenses	(6,785)	(6,539)
Income taxes (including tax benefit of \$592 and \$1,981 from exercise of stock options)	3,231	4,337
Deferred revenues	(29,766)	(21,482)
Net cash from operating activities	87,675	84,722
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(12,487)	(17,675)
Purchase of investments	(997)	(998)
Proceeds from sale of property and equipment	3	10
Proceeds from investments	1,000	1,000
Computer software developed	(1,541)	(507)
Payment for acquisitions, net of cash acquired	(6,665)	-
Other, net	50	48
Net cash from investing activities	(20,637)	(18,122)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock upon exercise of stock options	2,481	7,345
Proceeds from sale of common stock, net	180	179
Dividends paid	(3,612)	(3,106)
Net cash from financing activities	(951)	4,418
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 66,087	\$ 71,018
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 53,758	\$ 32,014
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 119,845	\$ 103,032

Net cash paid for income taxes was \$5,743 and \$1,033 for the three months ended September 30, 2004 and 2003, respectively. The Company paid interest of \$2 and \$26 for the three months ended September 30, 2004 and 2003, respectively.

See notes to condensed consolidated financial statements

JACK HENRY & ASSOCIATES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Amounts 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 that has developed or acquired several banking and credit union software systems. The Company's revenues are predominately earned by marketing those systems to financial institutions nationwide along with the computer equipment (hardware) and by providing the conversion and software installation services for a financial institution to utilize a JHA software system. JHA also provides continuing support and services to customers using the systems either in-house or outsourced.

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 OPTIONS

As permitted under Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, the Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, in accounting for stock-based awards to employees. Under APB No. 25, the Company generally recognizes no compensation expense with respect to such awards, since the exercise price of the stock options awarded are equal to the fair market value of the underlying security on the grant date.

The following table illustrates the effect on net income and net income per share as if the Company had accounted for its stock-based awards to employees under the fair value method of SFAS No. 123. The fair value of the Company's stock-based awards to employees was estimated as of the date of the grant using a Black-Scholes option pricing model. The Company's pro forma information is as follows:

	Three Months Ended September 30,	
	2004	2003
	-----	-----
Net income, as reported	\$ 16,674	\$ 13,857
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	268	6,500
	-----	-----
Pro forma net income	\$ 16,406	\$ 7,357
	=====	=====
Diluted net income per share		
As reported	\$ 0.18	\$ 0.15
Pro forma	\$ 0.18	\$ 0.08
Basic net income per share		
As reported	\$ 0.18	\$ 0.16
Pro forma	\$ 0.18	\$ 0.08

COMPREHENSIVE INCOME

Comprehensive income for the three-month periods ended September 30, 2004 and 2003 equals the Company's net income.

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, 2004. 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, 2004.

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, 2004, and the results of its operations and its cash flows for the three month period ended September 30, 2004 and 2003.

The results of operations for the period ended September 30, 2004 are not necessarily indicative of the results to be expected for the entire year.

#### 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, 2004.

#### Acquisitions:

On September 1, 2004, the Company acquired Banc Insurance Services, Inc. ("BIS") in Massachusetts. BIS is a leading provider of turnkey outsourced insurance agency solutions for financial institutions. The purchase price for BIS, paid in cash, was preliminarily allocated to the assets and liabilities acquired based on then estimated fair values at the acquisition date, resulting in a net allocation of \$20 to working capital, \$97 to property and equipment and \$6,549 to goodwill. The acquired goodwill has been allocated to the banking segment and is non-deductible for federal income tax. Contingent purchase consideration may be paid over the next five years based upon BIS gross revenues which could result in additional allocations to goodwill of up to \$13,400. Pro forma results of this acquisition were not material and therefore not presented.

#### RECLASSIFICATION

Where appropriate, prior period financial information has been reclassified to conform to the current period's presentation.

#### NOTE 2. SHARES USED IN COMPUTING NET INCOME PER SHARE

	Three Months Ended September 30,	
	2004	2003
	-----	-----
Weighted average number of common shares outstanding - basic	90,286	88,515
Common stock equivalents	2,199	2,554
	-----	-----
Weighted average number of common and common equivalent shares outstanding - diluted	92,485	91,069
	=====	=====

Per share information is based on the weighted average number of common shares outstanding for the three month periods ended September 30, 2004 and 2003. Stock options have been included in the calculation of income per share to the extent they are dilutive. Non-dilutive stock options to purchase approximately 1,790 and 1,788 shares for the three-month periods ended September 30, 2004 and 2003, respectively, were not included in the computation of diluted income per common share.

#### NOTE 3. BUSINESS SEGMENT INFORMATION

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

	Three Months Ended September 30, 2004			Three Months Ended September 30, 2003		
	Bank	Credit Union	Total	Bank	Credit Union	Total
<b>REVENUE</b>						
License	\$ 12,518	\$ 7,033	\$ 19,551	\$ 8,831	\$ 4,129	\$ 12,960
Support and service	71,240	12,408	83,648	63,147	9,377	72,524
Hardware	16,058	4,839	20,897	19,586	3,870	23,456
Total	99,816	24,280	124,096	91,564	17,376	108,940
<b>COST OF SALES</b>						
Cost of license	418	1,191	1,609	475	438	913
Cost of support and service	45,701	10,329	56,030	40,816	8,233	49,049
Cost of hardware	12,116	3,779	15,895	13,707	2,614	16,321
Total	58,235	15,299	73,534	54,998	11,285	66,283
<b>GROSS PROFIT</b>	<b>\$ 41,581</b>	<b>\$ 8,981</b>	<b>\$ 50,562</b>	<b>\$ 36,566</b>	<b>\$ 6,091</b>	<b>\$ 42,657</b>

	September 30, 2004	June 30, 2004
Property and equipment, net		
Bank systems and services	\$ 188,184	\$ 187,242
Credit Union systems and services	32,307	27,858
Total	\$ 220,491	\$ 215,100
Identified intangible assets, net		
Bank systems and services	\$ 132,053	\$ 125,650
Credit Union systems and services	40,892	41,257
Total	\$ 172,945	\$ 166,907

#### NOTE 4. SUBSEQUENT EVENTS

On October 5, 2004, the Company announced its acquisition of California based Verinex Technologies ("Verinex") effective October 1, 2004. Verinex is a leading developer and integrator of biometric security solutions. The purchase price for Verinex, 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 \$575 to working capital, \$25 to property and equipment, \$464 to capitalized software, \$4,208 to customer relationships, and \$29,728 to goodwill. The acquired goodwill has been allocated to the banking segment and is non-deductible for federal income tax.

On October 5, 2004, the Company announced it had finalized the acquisition of Texas based Select Payment Processing, Inc. ("SPP") effective October 1, 2004. SPP is a provider of an innovative electronic payment processing solution for financial institutions. The purchase price for SPP, 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 (\$44) to working capital, \$190 to property and equipment, \$467 to capitalized software and \$11,388 to goodwill. The acquired goodwill has been allocated to the banking segment and is non-deductible for federal income tax.

On October 19, 2004, the Company renewed a bank credit line that provides for funding of up to \$25,000 and bears interest at variable LIBOR-based rate. As of September 30, 2004, there were no amounts outstanding.



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 installation for the implementation of our systems and provide continuing customer support services after the systems are installed. 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 seven data centers and 20 item-processing centers located throughout the United States.

The first quarter of fiscal year 2005 showed strong growth in revenues and improved gross and operating margins, which allowed us to leverage a 14% increase in revenues to a 20% increase in net income compared to the same period last year.

A detailed discussion of the major components of the results of operations for the three months ended September 30, 2004 follows. All amounts are in thousands and discussions compare the current three-month period ended, September 30, 2004 to the prior three-month period ended September 30, 2003.

REVENUE

License Revenue	Three Months Ended September 30,	
	----- 2004 -----	2003 -----
License	\$ 19,551	\$ 12,960
Percentage of total revenue	16%	12%
Change from prior year	+51%	

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.

License revenue increased mainly due to growth in delivery within both segments with the credit union segment experiencing the largest increase for the quarter with continued strength in new core installations. The Check 21 legislation, which will allow financial institutions to clear image documents electronically, has continued to provide solid interest and sales in our complementary image products, especially our 4|sight solution. One of our newer offerings, Detective, a software for fraud and anti-money laundering solution in the financial institution industry was an important element in the license increase for the quarter.

Support and Service Revenue	Three Months Ended September 30,	
	----- 2004 -----	2003 -----
Support and service	\$ 83,648	\$ 72,524
Percentage of total revenue	67%	67%
Change from prior year	+15%	

Support and services fees are generated from installation services, annual support services to assist the customer in operating the systems and to enhance and update the software, from providing outsourced data processing services and ATM and debit card processing services.

There was strong growth in support and service revenue components for the first quarter of fiscal 2005, which was offset by a slight decrease in installation services.

Support and Service Revenue	Q1 Fiscal 2005 Compared to Q1 Fiscal 2004 -----	
	\$ Increase/Decrease	% Increase/Decrease -----

In-House Support	\$ 5,894	17%
ATM and Debit Card Services	\$ 3,751	47%
Outsourcing Services	\$ 2,321	13%
Installation Services	\$ (842)	-8%
	-----	-----
Total Increase	\$ 11,124	15%
	=====	=====

The support and service revenue growth is primarily due to the in-house support increase arising out of software installations performed during the previous twelve months. ATM and debit card transaction processing services together with outsourcing services for banks and credit unions continue to drive revenue growth at a strong pace as we leverage our resources effectively and expand our customer base. Installation revenue was off slightly due to timing and number of installations performed during the current first quarter compared to the same period last year.

Hardware Revenue	Three Months Ended September 30,	
	-----	-----
	2004	2003
	-----	-----
Hardware	\$ 20,897	\$ 23,456
Percentage of total revenue	17%	21%
Change from prior year	-11%	

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 for the quarter due to a decrease in the number of hardware systems delivered and the dollar value of the systems overall. Hardware revenue in the prior year's quarter was 21% of the total revenue, while in the current quarter it is 17% of the total revenue. We expect this decrease as a percentage of total revenue to continue as the entire industry is experiencing the impact of rising equipment processing power and decreasing equipment prices.

#### BACKLOG

Our backlog increased 5% at September 30, 2004 to \$185,100 (\$63,000 in-house and \$122,100 outsourcing) from \$176,500 (\$60,200 in-house and \$116,300 outsourcing) at September 30, 2003. Backlog decreased 3% from \$191,300 (\$67,200 in-house and \$124,100 outsourcing) at June 30, 2004.

#### COST OF SALES AND GROSS PROFIT

Cost of license represents the cost of software from our third party vendors. Cost of support and service represents costs associated with conversion and installation efforts, ongoing support for our in-house customers, operation of our data and item centers providing services for our outsourced customers, ATM and debit card processing services and direct operation 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 and the ongoing operation costs to provide support to our customers. These costs are recognized at the same time as the related hardware revenue is recognized.

Cost of Sales and Gross Profit	Three Months Ended September 30,	
	-----	-----
	2004	2003
	-----	-----
Cost of License	\$ 1,609	\$ 913
Percentage of total revenue	1%	1%
Change from prior year	+76%	
License Gross Profit	\$ 17,942	\$ 12,047
Gross Profit Margin	92%	93%
Change from prior year	+49%	
	-----	-----
Cost of support and service	\$ 56,030	\$ 49,049
Percentage of total revenue	45%	45%
Change from prior year	+14%	

Support and Service Gross	\$ 27,618	\$ 23,475
Gross Profit Margin	33%	32%
Change from prior year	+18%	
-----		
Cost of hardware	\$ 15,895	\$ 16,321
Percentage of total revenue	13%	15%
Change from prior year	-3%	
Hardware Gross Profit	\$ 5,002	\$ 7,135
Gross Profit Margin	24%	30%
Change from prior year	-30%	
-----		
TOTAL COST OF SALES	\$ 73,534	\$ 66,283
Percentage of total revenue	59%	61%
Change from prior year	+11%	
TOTAL GROSS PROFIT	\$ 50,562	\$ 42,657
Gross Profit Margin	41%	39%
Change from prior year	+19%	

Cost of license increased by \$696 for the current quarter due to increased third party software vendor costs, lowering the gross profit margin slightly. Cost of support and service increased 14% or \$6,981, due to increased headcount and depreciation expense for the new outsourcing facilities and equipment as compared to last year. Cost of hardware decreased 3% or \$426 due to product sales mix and change in vendor incentives for the current period. Incentives and rebates received from vendors fluctuate quarterly and annually due to changing thresholds established by the vendors.

GROSS PROFIT - Gross margin on license revenue decreased slightly to 92% for the current quarter compared to same quarter last year with a 93% gross margin due to increased third party software vendor costs. The gross profit increase in support and service is due to continued strong revenue growth, with approximately 88% of the support and service revenue for the current quarter being recurring. Last year 85% of revenue was recurring. Gross margin for support and service grew to 33% for the current quarter due to the continuation of company-wide cost control measures and improved processes. Hardware gross margin in the first quarter of fiscal 2005 decreased from 30% to 24% in the first quarter of fiscal 2004 primarily due to decreases in incentives and rebates earned from vendors which fluctuate quarterly and annually, plus the timing of hardware shipments and sales mix.

#### OPERATING EXPENSES

Selling and Marketing	Three Months Ended September 30,	
	2004	2003
Selling and marketing	\$ 10,732	\$ 8,772
Percentage of total revenue	9%	8%
Change from prior year	+22%	

Dedicated sales forces, inside sales teams, and technical sales support teams 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. Our inside sales force markets specific complementary products and services to our existing customers.

For the three months ended September 30, 2004, selling and marketing expenses increased primarily due to increased headcount and the associated costs of the new sales teams that joined us as part of our recent acquisitions.

Research and Development	Three Months Ended September 30,	
	2004	2003
Research and development	\$ 6,142	\$ 5,319
Percentage of total revenue	5%	5%
Change from prior year	+15%	

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 annually. 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 in relation to increased headcount for ongoing development of new products and enhancements to existing products plus depreciation and maintenance expense for upgrading technology equipment. Research and development expenses increased in the initial quarter of 2005 by 15%, however they remained at 5% of total revenue for both years.

General and Administrative	Three Months Ended September 30,	
	2004	2003
General and administrative	\$ 7,465	\$ 7,005
Percentage of total revenue	6%	6%
Change from prior year	+7%	

General and administrative expense increased for the quarter primarily due to increased employee cost plus insurance expenses relating to our additional facilities and acquisitions compared to the same period last year. Although general and administrative expenses increased in the initial quarter of 2005 by 7%, they remained at 6% of total revenue for both years.

INTEREST INCOME (EXPENSE) - Net interest income for the three months ended September 30, 2004 reflects an increase of \$172 when compared to the same period last year due to the higher cash and cash equivalent balances.

PROVISION FOR INCOME TAXES - The provision for income taxes was \$10,005 for the three months ended September 30, 2004 compared with \$7,965 for the same period last year. For the current fiscal year, the rate of income taxes is estimated at 37.5% of income before income taxes compared to 36.5% for the same quarter in fiscal 2004. The change reflects an overall increase in the effective state income tax rate.

NET INCOME - Net income increased 20% for the three months ended September 30, 2004. Net income for the first quarter of fiscal 2005 was \$16,674 or \$0.18 per diluted share compared to \$13,857 or \$0.15 per diluted share in the same period last year.

#### BUSINESS SEGMENT DISCUSSION

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

##### Bank Systems and Services

	Three Months Ended September 30,		Percent Increase
	2004	2003	
Revenue	\$ 99,816	\$ 91,564	9%
Gross Profit	\$ 41,581	\$ 36,566	14%
Gross Profit Margin	42%	40%	

Revenue in the bank segment increased 9% to \$99,816 in the current period. Gross profit increased 14% from \$36,566 in the first quarter of the previous year to \$41,581 in the current first quarter. Gross margin increased from 40% last year to 42%.

License revenue for the bank segment increased 42% from \$8,831 in the three months ended September 30, 2003 to \$12,518 for the three months ended September 30, 2004. Bank support and service revenue increased 13% to \$71,240 for the first quarter of fiscal 2005 from \$63,147 for the same quarter last year. The support and service revenue increase of \$8,093

represents a decrease of \$345 for install revenue, \$2,846 growth in ATM and debit card processing, \$1,729 growth in outsourcing services and \$3,863 increase for in-house support revenue. Hardware revenue in the bank segment decreased 18% from \$19,586 to \$16,058 for the three months ended September 30, 2004 compared to the same period last year.

Revenue growth is attributable to the significant increase in license revenue related to new core customers, migrations, and complimentary products together with the steady increase in support and services relating to maintenance for in-house and outsourced customers, and a strong increase in ATM and debit card processing activity.

This segment increased gross profit for the initial quarter of 2005 due to our revenue growth and continued leveraging of resources and infrastructure combined with companywide cost controls.

#### Credit Union Systems and Services

	Three Months Ended September 30,		Percent Increase
	2004	2003	
Revenue	\$ 24,280	\$ 17,376	40%
Gross Profit	\$ 8,981	\$ 6,091	47%
Gross Profit Margin	37%	35%	

Revenue in the credit union segment increased 40% to \$24,280 in the current period compared to the same period last year. Gross profit increased 47% from \$6,091 in the first quarter of the previous year to \$8,981 in the current year first quarter. Gross margin increased from 35% in the first quarter last year to 37% in the same period this year due to very strong revenue growth while maintaining and controlling cost through continued leveraging of resources and infrastructure.

License revenue for the credit union segment increased 70% from \$4,129 in the three months ended September 30, 2003 to \$7,033 for the three months ended September 30, 2004. Credit union support and service revenue increased 32% to \$12,408 in the current quarter compared to \$9,377 for the same period in the previous year. The support and service revenue increase of \$3,031 represents a slight decrease of \$497 for installation services, \$905 growth in ATM and debit card processing, \$592 growth in outsourcing services and \$2,031 growth for in-house support revenue. In-house support revenue had a 33% increase primarily due to license installations in the previous twelve months. Hardware revenue in the credit union segment increased 25% from \$3,870 for the previous year's initial quarter to \$4,839 for the current quarter.

Revenue growth is attributable to the growth in license revenue together with the steady increase in support and services relating to maintenance for in-house and outsourced customers, and ATM and debit card processing activity, which is growing rapidly in our credit union segment.

This segment increased gross profit for the initial quarter of 2005 due to our revenue growth and continued leveraging of resources and infrastructure combined with companywide cost controls.

#### FINANCIAL CONDITION

##### Liquidity

The Company's cash and cash equivalents increased to \$119,845 at September 30, 2004, from \$53,758 million at June 30, 2004 and \$103,032 at September 30, 2003. The increase is primarily due to collection of our June 2004 annual maintenance billings. Cash provided by operations increased \$2,953 to \$87,675 for the three months ended September 30, 2004 as compared to \$84,722 for the same period last year. This is primarily due to the increase in net income for the first quarter of \$2,817, compared to the same quarter last year.

Cash used in investing activities for the current period totaled \$20,637. The largest use of cash was for capital expenditures in the amount of \$12,487 primarily for equipment final occupancy preparations of our new San Diego, CA location and purchase of internal software, while cash used for acquisitions was \$6,665 and cash for software development used \$1,541.

Financing activities used cash of \$951 during the three months ended September 30, 2004, mainly to pay dividends in the first quarter of \$3,612, offset by \$2,661 from the proceeds from the issuance of stock for stock options exercised and the sale of treasury sales to the employee stock

purchase plan.

### Capital Requirements and Resources

The Company generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$12,487 and \$17,675 for the three-month periods ended September 30, 2004 and 2003, respectively, which were made for expansion of facilities and additional equipment. These additions were funded from cash generated by operations. Total consolidated capital expenditures for the Company are not expected to exceed \$45,000 for fiscal year 2005.

On September 21, 2001, the Company's Board of Directors approved a stock buyback of the Company's common stock of up to 3.0 million shares, and approved an increase to 6.0 million shares on October 4, 2002. The buyback has been funded with cash from operations. At June 30, 2004, there were 315,651 shares remaining in treasury stock. During the three months ended September 30, 2004, treasury shares of 212,879 and 9,624 were reissued for the shares exercised in the employee stock option plan and the employee stock purchase plan, respectively. At September 30, 2004, there were 93,148 shares remaining in treasury stock.

Subsequent to September 30, 2004, the Company's Board of Directors declared a cash dividend of \$.04 per share on its common stock payable on November 30, 2004, to stockholders of record on November 16, 2004. Current funds from operations are adequate for this purpose. The Board has indicated that it plans to continue paying dividends as long as the Company's financial picture continues to be favorable.

### 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, 2004.

### 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, 2004. 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, increased gross margin growth, strong cash flow and no debt as of and for the three months ended September 30, 2004. 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

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 operations of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation as of the end of the period covered by this report, the CEO and CFO concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings. There have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of evaluation.

#### PART II. OTHER INFORMATION

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of the Stockholders of Jack Henry & Associates, Inc. was held on October 26 2004 for the purpose of electing a board of directors. Proxies for the meeting were solicited pursuant to Section 14 (a) of the Securities and Exchange Act of 1934 and there was no solicitation in opposition to management's recommendations. Management's nominees for director, all incumbents, were elected with the number of votes for and withheld as indicated below:

	For	Withheld
John W. Henry	81,445,191	3,688,680
Jerry D. Hall	83,285,929	1,847,942
Michael E. Henry	83,210,543	1,923,328
James J. Ellis	82,736,178	2,397,693
Burton O George	83,146,282	1,987,589
Craig R. Curry	83,193,943	1,939,928
Joseph J. Maliekal	83,120,413	2,013,428

#### ITEM 6. EXHIBITS

- 10.18 Stock Purchase Agreement between the Company and Verinex Technologies, Inc. dated October 1, 2004.
- 31.1 Certification of the Chief Executive Officer dated November 9, 2004.
- 31.2 Certification of the Chief Financial Officer dated November 9, 2004.
- 32.1 Written Statement of the Chief Executive Officer dated November 9, 2004.
- 32.2 Written Statement of the Chief Financial Officer dated November 9, 2004.

#### SIGNATURES

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

JACK HENRY & ASSOCIATES, INC.

Date: November 9, 2004

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

Date: November 9, 2004

/s/ Kevin D. Williams  
-----  
Kevin D. Williams





STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") is entered into as of this 1st day of October, 2004, by and between VERINEX TECHNOLOGIES, INC., a Delaware corporation ("VTI") with its principal office in Lake Forest, California, the shareholders of VTI listed in Section 3.5 of this Agreement (together, the "Sellers"), and JACK HENRY & ASSOCIATES, INC., a Delaware corporation with its principal offices in Monett, Missouri ("Purchaser").

Background Statement

VTI is engaged in the business of providing biometric identification software and hardware to commercial customers. The Sellers own all of the issued and outstanding shares of the capital stock of VTI. Purchaser is engaged in the business of providing software, data processing services and other related services to banks, credit unions and other financial institutions and wishes to acquire all of the issued and outstanding shares of capital stock of VTI, thereby acquiring all of the assets, customers and business of VTI.

Statement of Agreement

In consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I  
DEFINITIONS

In addition to the terms defined elsewhere in this Agreement, the following terms shall have the meanings indicated below:

1.1 The term "Balance Sheet" means the VTI unaudited balance sheet and accompanying statement of income attached hereto as Exhibit 1.1, which reflect the assets and liabilities of VTI as of August 31, 2004.

1.2 The term "Contracts" means those contracts, leases, agreements, licenses and other arrangements to which VTI is a party which commit VTI to (a) provide software, hardware or services to its customers, or (b) for the payment of any amount in excess of \$1,000 or (c) extend for a period of one year or more and that are listed in section 3.6(e) of the Disclosure Schedule.

1.3 The term "Documentation" means those written materials owned by VTI that explain any Software or hardware or the use thereof.

1.4 The term "Financial Statements" means the unaudited VTI balance sheet and income statement for the year ended December 31, 2003, as provided by Sellers and VTI to Purchaser, and the Balance Sheet as described in Section 1.1 above.

1.5 The term "Permitted Liens" means: (a) liens for current taxes not yet due and payable, (b) liens arising in the ordinary course of business for sums not yet due and payable, but not involving any borrowed money or the deferred purchase price for property or services, and (c) liens disclosed on the Balance Sheet.

1.6 The term "Person" means an individual, partnership, corporation, limited liability company, trust, joint venture, joint stock company, association, unincorporated organization, governmental authority or other entity.

1.7 The term "Software" means those computer software programs listed on Exhibit 1.7 (in object code only or both source code and object code, as indicated on Exhibit 1.7) that are owned by VTI or by third parties and used, licensed or sublicensed by VTI.

1.8 The term "Trade Secrets" means business or technical information that is not generally known to other Persons and that derives actual or potential commercial value from not being generally known or readily ascertainable to other Persons.

ARTICLE II  
SALE AND PURCHASE OF SHARES

2.1 VTI Shares Acquired. On the terms and subject to the conditions

of this Agreement, on the Closing Date the Sellers shall sell and deliver to Purchaser, and Purchaser shall purchase and accept from Sellers, all of the issued and outstanding shares of capital stock of VTI (the "Shares"), which Shares consist of 9,150 shares of Common Stock with a par value of \$.001 per share.

2.2 Consideration. In consideration of the transfer to it of the Shares, Purchaser shall pay Sellers \$35,000,000.00 in the aggregate (the "Purchase Price"). The Purchase Price shall be payable to the Sellers at the Closing by wire transfer of immediately available funds in accordance with written instructions provided by Sellers.

2.3 Closing. The closing of the sale of the Shares (the "Closing") shall take place on October 4, 2004 (the "Closing Date"), or such other date as the parties may establish by mutual agreement as the Closing Date. The parties agree that in any event, the transactions contemplated by this Agreement shall be effective on October 1, 2004 (the "Effective Date"). The Closing shall occur at the offices of Palmieri, Tyler, Wiener, Wilhelm & Waldron in Irvine, California or such other location as the parties may establish by mutual agreement. If the Closing has not occurred on or before October 15, 2004, then this Agreement may be terminated by either the Purchaser or the Seller Representative.

2.4 Deliveries at Closing. At the Closing:

(a) Sellers will deliver to Purchaser:

- (i) Stock certificates representing the Shares, duly endorsed by Sellers for transfer to the Purchaser and accompanied by irrevocable stock powers executed by Sellers in a form acceptable to Purchaser;
- (ii) An Employment Agreement in the form of Exhibit 2.4(a)(ii) executed by Scott Almquist, William Watson and Aaron Watson;
- (iii) A Proprietary Rights and Confidentiality Agreement in the form of Exhibit 2.4(a)(iii) executed by Scott Almquist, William Watson and Aaron Watson;
- (iv) Resignations of each of the directors and officers of VTI;
- (v) A Release in the form of Exhibit 2.4(a)(v) executed on behalf of each of the Sellers, and by each of the officers and directors of VTI;
- (vi) The minute and stock books, corporate, accounting and tax records and all other records, documents and files of VTI;
- (vii) An opinion from counsel to VTI and the Sellers dated the Closing Date, in substantially the form of Exhibit 2.4(a)(vii);
- (viii) A Bill of Sale and Assignment of Intellectual Property Rights in substantially the form of Exhibit 2.4(a)(viii) executed on behalf of each of the Sellers, and by each of the officers and directors of VTI; and
- (ix) All other agreements, certificates and other documents required to be delivered by Seller on the Closing Date pursuant to this Agreement.

(b) Purchaser will deliver to the Sellers:

- (i) The Purchase Price, by wire transfer of immediately available funds to the account of each of Sellers in the amount as provided in Section 2.2 above;
- (ii) Employment Agreements between Purchaser and Scott Almquist, William Watson and Aaron Watson; and
- (iii) All other agreements, certificates and other documents required to be delivered by Purchaser on the Closing Date pursuant to this Agreement.
- (iv) Subject to the representations, warranties and covenants of the Sellers in this Agreement, a Release in the form of Exhibit 2.4(b)(iv) executed by VTI in favor of each of the Sellers relating to actions prior to the Closing

by the Sellers as officers, directors and shareholders of VTI.

ARTICLE III  
REPRESENTATIONS AND WARRANTIES OF VTI AND SELLERS

Except as set forth in the Disclosure Schedule attached hereto, VTI and each of the Sellers jointly and severally (except for those matters described in Section 10.2(b)(i) as being only several as to liability) represent and warrant to Purchaser that:

3.1 Organization and Standing. VTI is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority and possesses all governmental franchises, licenses, permits, authorizations and approvals necessary to enable it to own, lease or otherwise hold its properties and assets, to carry on its business as presently conducted and to carry out the transactions contemplated by this Agreement. VTI is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or holding of its properties makes such qualification necessary and in which the failure so to qualify would have a material adverse effect on it or its properties.

3.2 No Subsidiaries. VTI does business only under its corporate name and has no subsidiaries.

3.3 Authority. VTI has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of VTI. This Agreement has been duly and validly executed and delivered by an authorized officer of VTI and constitutes the legal, valid and binding obligation of VTI enforceable in accordance with its terms.

3.4 Consents and Approvals; No Violation. There is no requirement applicable to VTI or any of the Sellers to make any filing with, or to obtain any permit, authorization, consent or approval of, any governmental authority as a condition to the lawful consummation of the transactions contemplated by this Agreement. Except as disclosed in Exhibit 3.4, neither the execution, delivery and performance of this Agreement by VTI or the Sellers, nor the compliance of them with the provisions hereof will: (a) conflict with any provision of the articles of incorporation or bylaws of VTI; (b) result in a default (or give rise to any right of termination, cancellation or acceleration) under any Contract; (c) result in the imposition or creation of any lien, security interest, charge or encumbrance upon any asset of VTI; (d) require any authorization, consent, approval or notice under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, agreement, contract, lease or other instrument or arrangement to which VTI or any of the Sellers is a party, except for such of the foregoing as to which requisite waivers or consents have been obtained; or (e) violate any law, statute, rule, regulation, order, writ, injunction or decree of any governmental authority.

3.5 Capital Stock of VTI. The authorized capital stock of VTI consists of 10,000 shares of Common Stock, all with a par value of \$.001 per share, of which 9,150 shares of Common Stock are issued and outstanding. The shares of Common Stock of VTI are issued to the Sellers in the following amounts:

Name	No. of Shares
----	-----
Scott Almquist, as Trustee for the Almquist Family Trust	5,700
William S. and Traci Jo Watson	1,650
Aaron and Vanessa Watson	1,100
Sean and Cynthia Walwick	700

All of the issued and outstanding shares of capital stock of VTI are duly authorized, validly issued to the Sellers and fully paid and nonassessable and have not been issued, and are not held, in violation of any preemptive rights. Except as set forth above, there are no shares of capital stock or other equity securities of VTI outstanding, and the issued and outstanding shares as set forth above are held by the Sellers free and clear of all liens, encumbrances, claims and restrictions. There are and on the Closing Date will be no other issued or outstanding shares of capital stock of VTI, and on the Closing Date there will be no (i) outstanding, warrants, options,

agreements, convertible or exchangeable securities or other commitments pursuant to which VTI is or may become obligated to issue, sell, purchase, return or redeem any shares of capital stock or other securities of VTI; (ii) agreements with respect to the voting of the shares of VTI's capital stock; or (iii) equity securities of VTI reserved for issuance for any purpose.

3.6 VTI Assets. Except as disclosed in the Disclosure Schedule, VTI will own at Closing good and valid title to all of the following assets, rights and properties (the "VTI Assets"):

(a) The Software and all Documentation related thereto, including any Proprietary Rights therein (as described in Section 3.11 below);

(b) All of the customer records, customer lists, vendor lists, correspondence, product and service literature and materials, design, development and maintenance records and files, technical reports and other business documents that are presently used by VTI;

(c) The equipment (including data processing and other computer hardware, telecommunications equipment, media and tools), machinery, furniture and furnishings listed in the Disclosure Schedule, all of which is presently used by VTI, and all of which are in reasonably good condition and repair and are adequate and sufficient in all material respects to carry on the business of VTI as presently conducted;

(d) The accounts receivable of VTI, including, without limitation, those that are due and payable under the Contracts, of which at least 99% of the value thereof are collectable in the ordinary course of business at amounts no less than that reflected on the Balance Sheet;

(e) Those contracts, leases, agreements, licenses and other arrangements to which VTI is a party and that are listed in section 3.6(e) of the Disclosure Schedule (the "Contracts");

(f) Those trademarks, service marks, patents and other rights listed in section 3.6(f) of the Disclosure Schedule;

(g) The goodwill appurtenant to VTI's business.

At the Closing, VTI shall own all such VTI Assets free and clear of all mortgages, liens, security interests or encumbrances of any nature whatsoever, except for Permitted Liens. VTI's Assets include all of the assets presently used by VTI in the operation of its business.

3.7 Leases. Except as disclosed in section 3.7 of the Disclosure Schedule, VTI is not a party to or obligated with respect to any leases of real or personal property. Complete and correct copies of all leases have been delivered to Purchaser. Each such Lease is valid, subsisting and in good standing. VTI has not sent or received any notice of default thereunder and no event or condition exists which constitutes, or after notice or lapse of time or both would constitute, a material default thereunder. The leasehold interests under the Leases are subject to no lien or other encumbrance created by VTI other than Permitted Liens.

3.8 Insurance. Section 3.8 of the Disclosure Schedule sets forth a description of all current fire, liability, extended coverage and all other insurance policies, copies of which have been delivered to the Purchaser. VTI has not received any notice of cancellation with respect to any of such insurance policies or of any unwillingness of an insurer to renew such policies based on standard premium charges.

3.9 Bank Accounts, Signing Authority, Powers of Attorney. Except as set forth on section 3.9 of the Disclosure Schedule, VTI has no account or safe deposit box in any bank and no Person has any power, whether singly or jointly, to sign any checks on behalf of VTI, to withdraw any money or other property from any bank, brokerage or other account of VTI or to act under any power of attorney granted by VTI at any time for any purpose. Section 3.9 of the Disclosure Schedule also sets forth the names of all Persons authorized to borrow money or sign notes on behalf of VTI.

3.10 Liabilities. VTI has no liabilities of any nature whatsoever which exceed \$1,000 in the aggregate, whether accrued or unaccrued, known or unknown, fixed or contingent except: (a) the obligations arising under the Contracts; and (b) those liabilities listed in the Disclosure Schedule. VTI is not in default with respect to any outstanding indebtedness for borrowed money or any instrument relating thereto. Complete and correct copies of

all instruments, (including all amendments, supplements, waivers and consents) relating to any indebtedness for borrowed money of VTI have been furnished to Purchaser.

### 3.11 Proprietary Rights.

(a) VTI owns or uses under valid licenses all copyrights, know-how, patents, trademarks and Trade Secrets, if any, (collectively, the "Proprietary Rights") necessary for the operation of its business as now conducted.

(b) VTI has taken efforts that are reasonable under the circumstances to prevent the unauthorized disclosure to other Persons of such portions of VTI's Trade Secrets as would enable any such other Person to compete with VTI within the scope of its business as now conducted.

(c) VTI does not use any trademark in connection with its business in any material way, except for those trademarks listed in section 3.11(c) of the Disclosure Schedule, and no such trademark is registered except as otherwise indicated in section 3.11(c) of the Disclosure Schedule.

(d) Any Software used by VTI and which is material to the scope of its business is identified in section 3.11(d) of the Disclosure Schedule, and VTI either owns all such Software or is licensed to use such Software in the manner that VTI presently uses such Software in the normal course of its business. Except as set forth in section 3.11(d) of the Disclosure Schedule, VTI has no obligation to make any payments by way of royalty, fee, settlement or otherwise to any Person in connection with VTI's present use of any such Software.

(e) No claim has been asserted against VTI within the scope of its business by any other Person: (i) that such Person has any right, title or interest in or to any of VTI's copyrights, patents or Trade Secrets, (ii) that such Person has the right to use any of VTI's trademarks, (iii) to the effect that any past, present or projected act or omission by VTI infringes any rights of such Person to any copyright, patent, Trade Secret, know-how or trademark, or (iv) that challenges VTI's right to use any of VTI's copyrights, patents, Trade Secrets, know-how or trademarks.

3.12 Financial Statements. The Balance Sheet and Financial Statements have been prepared using the accrual method of accounting, and VTI has used the cash method of accounting to prepare and file its federal income tax returns for the taxable year ending December 31, 2003. Consistent with such accounting practices, the Balance Sheet and Financial Statements each fairly present, in all material respects, the financial condition and, where indicated, the results of operations of VTI for the periods and as of the dates thereof. The Chief Financial Officer of VTI has certified the Balance Sheet and the Financial Statements by signing and dating them.

3.13 Absence of Changes or Events. Except as set forth in section 3.13 of the Disclosure Schedule, or as permitted or contemplated by this Agreement, since the date of the Balance Sheet, there has not been: (a) any material change in the assets, liabilities, sales, income or business of VTI or in its relationships with suppliers, customers or lessors; (b) any acquisition or disposition by VTI of any asset or property other than in the ordinary course of business; (c) any damage, destruction or loss, whether or not covered by insurance, either in any case or in the aggregate, which had or may have a material adverse affect upon the VTI Assets or VTI's business; (d) any increase in the compensation, pension or other benefits payable or to become payable by VTI to any of its officers or employees, or any bonus payments or arrangements made to or with any of them; (e) any forgiveness or cancellation of any debt or claim by VTI or any waiver of any right of material value other than compromises of accounts receivable in amounts not material and in the ordinary course of business; (f) any transaction by VTI other than in the ordinary course of business; (g) any incurrence by VTI of any material obligations or liabilities, whether absolute, accrued, contingent or otherwise (including, without limitation, liabilities as guarantor or otherwise with respect to obligations of others), other than obligations and liabilities that are not material and were incurred in the ordinary course of business; or (h) any mortgage, pledge, lien, lease, security interest or other charge or encumbrance on any of VTI Assets.

3.14 Contracts. Each of the Contracts is a legal, valid and binding obligation of VTI and, to the knowledge of the Sellers, the other party thereto, enforceable in accordance with its terms, and no party to any Contract has given notice of the termination thereof. There are no facts or circumstances that exist and that, with the passage of time or the giving of

notice or both, would constitute a breach of or an event of default under any of the Contracts.

3.15 Litigation. There are no lawsuits, actions, claims or legal, administrative or arbitration proceedings or investigations pending or, to the knowledge of VTI or any of the Sellers, threatened by or against VTI; nor are any of the Sellers aware of the existence of any basis for any such lawsuit, action, claim or proceeding.

3.16 Compliance with Applicable Laws. VTI is in compliance with all applicable statutes, laws, ordinances, rules, orders and regulations of any governmental authority, including those related to wages, hours, collective bargaining, the payment of social security taxes and applicable discrimination laws, the penalty for violation of which may have a material adverse effect upon the VTI Assets or VTI's business. VTI has not received any written communication from a governmental authority that alleges that VTI is not in compliance with any federal, state, local or foreign laws, ordinances, rules or regulations. There are no material licenses, permits or other authorizations from governmental authorities necessary for the conduct of VTI's business or the ownership or use of the VTI Assets.

3.17 Compliance with Other Instruments. VTI has complied with, and is in compliance with, all material unwaived terms and provisions of all Contracts, agreements and indentures to which VTI is a party and has not received any notices of any defaults thereunder.

3.18 Disclosure. No representation or warranty made by Sellers or VTI in this Agreement or in any exhibit or schedule to this Agreement or in any written statement, certificate or other document to be delivered at the Closing to the Purchaser pursuant hereto contains or will contain any untrue statement of a material fact or omits or will omit to or otherwise fail to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading. Sellers and VTI have made available to Purchaser all documents and records concerning VTI and the Seller's ownership of the capital stock thereof, and the Sellers have no actual knowledge of any material fact relating to VTI's business which may have a material adverse effect on the same and which has not been disclosed to the Purchaser in writing; provided that the Sellers make no representations or warranties in this agreement as to the future performance of VTI, and provided further that the Sellers make no representations or warranties in this Section or elsewhere in this Agreement as to the effect of matters, facts, conditions or developments (including proposed legislation or government promulgations) applicable to or affecting the software generally or having general application to or affecting generally the local, regional or national economy or business environment.

3.19 Employees; Labor Matters. Section 3.19 of the Disclosure Schedule lists the names of all employees of VTI and, except as otherwise noted thereon, the salary or wage rate for each such employee and a brief description of the responsibilities of each such employee. Except as otherwise disclosed in section 3.19 of the Disclosure Schedule, VTI is not a party to nor has otherwise entered into a written or other employment agreement with any such employee. VTI is not a party to any collective bargaining agreement, and has not recognized or received a demand for recognition of any collective bargaining representative with respect thereto; and during the past three years there have been no material labor strikes, disputes or work stoppages and, to the knowledge of VTI or either of the Sellers, no such actions are threatened against VTI and no basis exists therefor. There are no unfair labor practice claims or charges pending or, to the knowledge of VTI or the Sellers, threatened against VTI.

3.20 Employee Benefit Plans; ERISA. Section 3.20 of the Disclosure Schedule identifies each employee pension, retirement, profit sharing, bonus, incentive, deferred compensation, hospitalization, medical, dental, vacation, insurance, sick pay, disability, severance or other plan, fund, program, policy, contract or arrangement providing employee benefits maintained, promised or contributed to by VTI, whether created in writing, through an employee manual or similar document or orally (the "Plans"). VTI has no formal plan or commitment, whether legally binding or not, to create any additional Plan or modify or change any existing Plan that would affect any employee or terminate any employee of VTI. Section 3.20 of the Disclosure Schedule sets forth all liabilities, obligations and commitments of VTI, whether legally binding or not, to make any contributions to any Plan or payments to any employee or any other Person with respect to any of the plans as of the date hereof. Except as set forth in Section 3.20 of the Disclosure Schedule: (a) all such Plans that are subject to the Employee Retirement Income Security Act of 1974, as amended, and any successor statute of similar import, together with the regulations thereunder ("ERISA") comply in all material respects with ERISA; (b) all contributions to or payments under such Plans that were due and payable by VTI on or before the date hereof have been made; and (c) none of the Plans subject to

Title IV of ERISA has been terminated, no proceeding to terminate any of such Plans has been instituted, and there has been no complete or partial withdrawal, cessation of facility operations or occurrence of any other event that would result in the imposition of liability on VTI under Title IV of ERISA.

3.21 Minute and Record Books. The minute book of VTI made available to the Purchaser for inspection accurately records therein all material actions taken by VTI's board of directors and shareholders. The books of account, minute books, stock record books and other records of VTI are complete and correct and have been maintained in accordance with sound business practices and applicable laws.

### 3.22 Taxes.

(a) (i) All federal and state income tax returns and all other tax returns required to be filed by VTI on or prior to the date hereof, the penalty for failure to file which may have a material adverse impact upon the VTI Assets or VTI's business, have been filed or provision has been made therefore; (ii) all federal, state and local taxes and assessments including, without limitation, estimated tax payments, excise, unemployment, social security, occupation, franchise, property, sales and use taxes, and all penalties or interest in respect thereof now or heretofore due and payable by or with respect to VTI have been paid or are properly accrued and reflected as liabilities in the Financial Statements; (iii) all federal, state and local withholdings of VTI including, without limitation, withholding taxes, social security, and any similar taxes, have been withheld and paid over as required by law; and (iv) no extension with any taxing authority concerning any tax liability of or with respect to VTI is currently outstanding.

(b) VTI's federal income tax returns have never and are not now the subject of any audit, investigation, or other action of the Internal Revenue Service.

(c) There are no tax liens, whether imposed by any federal, state, local or foreign taxing authority, outstanding against any of the assets, properties or business of VTI.

(d) There are no facts or circumstances associated with VTI and affecting the transactions contemplated by this Agreement that will cause, or with the passage of time will result in, any material adverse tax consequences to VTI.

## ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants as follows:

4.1 Organization and Authority. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to execute and deliver this Agreement and to carry out the transactions and perform the obligations contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Purchaser. This Agreement has been duly and validly executed and delivered by an authorized officer of Purchaser and constitutes a legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms.

4.2 Consents and Approvals; No Violation. There is no requirement applicable to Purchaser to make any filing with, or to obtain any permit, authorization, consent or approval of, any governmental authority as a condition to the lawful consummation of the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement by Purchaser and compliance with the provisions hereof will not (a) conflict with any provision of the certificate of incorporation or bylaws of Purchaser, (b) violate any material law, statute, ordinance, rule or regulation applicable to Purchaser or (c) result in a breach of or default under any material contract or other agreement of Purchaser, the effect of which would be to materially impair Purchaser's ability to perform its obligations under this Agreement.

4.3 Litigation. There are no lawsuits, actions, claims or legal, administrative or arbitration proceedings or investigations pending or, to the knowledge of Purchaser, threatened by or against or affecting Purchaser, any of its properties, assets, operations or business that could reasonably be expected to materially impair Purchaser's ability to perform its obligations under this Agreement; nor, to the best of Purchaser's knowledge,

does there exist any basis for any such lawsuit, action, claim or proceeding.

4.4 Investment. The Shares acquired by the Purchaser pursuant to this Agreement are being acquired for investment only and not with a view to any public distribution thereof, and the Purchaser will not offer to sell or otherwise dispose of the Shares so acquired by it in violation of the Securities Act of 1933.

ARTICLE V  
COVENANTS OF SELLERS AND VTI

5.1 Access. Subject to paragraph 1 of that certain Letter of Intent (the "LOI") dated September 1, 2004 between VTI and the Purchaser, the Sellers and VTI shall cause VTI from the date of this Agreement to and including the Closing Date, to give Purchaser and its representatives reasonable access during normal business hours to all of VTI's assets and properties and all of VTI's books and records, and VTI shall furnish to Purchaser all such contracts, documents and information with respect to VTI's assets, properties and business as Purchaser may from time to time reasonably request. Purchaser shall have the right to conduct such accounting, financial, and other audits, tests and analyses, at its cost, that it deems appropriate on or to any such assets, properties, books and records.

5.2 Business. Until the Closing, the Sellers and VTI shall cause VTI to:

(a) carry on its business in, and only in, the usual, regular and ordinary course in substantially the same manner as heretofore conducted and use best efforts to preserve intact its present business organization, keep available the services of its present officers and employees, and preserve its relationships with customers, suppliers and others having business dealings with it, and promptly inform and consult with Purchaser concerning all material operations of VTI or proposed operations which may affect the value of VTI; provided, however, VTI may make cash distributions to its shareholders prior to the Closing with the understanding of the parties that there will be sufficient cash in VTI at the Closing to satisfy outstanding checks and accrued payroll and benefits;

(b) refrain from amending its articles of incorporation or bylaws;

(c) maintain its assets and properties in customary repair, order and condition, reasonable wear and use excepted, and maintain insurance upon its assets, property, officers and directors and its business in such amounts and of such kinds comparable to that in effect on the date of this Agreement;

(d) maintain its books, accounts and records in manner consistent with VTI's prior practices;

(e) promptly disclose to Purchaser any information referenced in Article III of this Agreement which because of an event occurring after the date hereof, is incomplete or is no longer correct as of all times after the date hereof until the Closing Date;

(f) refrain from acquiring by merging or consolidating with, or agreeing to merge or consolidate with, or purchasing the assets of, or otherwise acquiring any business of any corporation, partnership, limited liability company, association or other business organization or division thereof;

(g) refrain from soliciting, encouraging (including by way of furnishing information) or otherwise entertain any inquiries or proposals for (or which may reasonably be expected to lead to) the acquisition of any of the capital stock, assets (other than assets in the ordinary course) or business of VTI, whether directly, indirectly, or through any investment banker, attorney, accountant or other representative retained by the Sellers or VTI;

(h) promptly advise Purchaser orally and confirm in writing upon learning of any change in the condition (financial or otherwise) of properties, assets, liabilities, operations, businesses or prospects of VTI;

(i) promptly advise Purchaser orally and confirm in writing any inquiry or proposal for the acquisition of the stock, assets and properties (other than in the ordinary course of business) or businesses of VTI;

(j) use their best efforts to cause all of the conditions to the obligations of Purchaser and the Sellers and VTI under this Agreement to be satisfied on or prior to the Closing Date.



5.3 Cooperation. The Sellers and VTI will: (a) cooperate with Purchaser in disclosing to Purchaser at VTI's place of business, all Documentation, Software, Trade Secrets, records, other intellectual property, technical data, new product or service development and research data and other information used in the business of VTI; (b) cooperate with Purchaser in connection therewith after the Closing Date in such manner as may reasonably be required by Purchaser, including but not limited to customer introductions and customer retention efforts; and (c) not before or any time after Closing disclose the same to any other person or firm without the prior written consent of Purchaser.

5.4 No Violation. Neither the Sellers nor VTI knowingly shall take any action that would constitute a misrepresentation or breach of any warranty contained in Article III.

5.5 Notification. The Sellers and VTI shall use their respective best efforts to promptly notify Purchaser of any alleged misrepresentations or breaches of warranty or covenant under this Agreement by Purchaser. The Sellers and VTI shall cooperate in good faith to allow Purchaser to cure any such alleged misrepresentations or breaches; provided, that nothing in this Section 5.5 shall require the Sellers and/or VTI to expend any sum of money or incur any obligation to cure any misrepresentation or breach of warranty or covenant by Purchaser.

5.6 Transfer Taxes. The Sellers shall pay when due all stock transfer or similar taxes, if any, which are required to be paid in connection with the transfer of the Shares, and the Sellers will comply with all laws imposing such taxes in respect of the Shares.

5.7 Confidential Information. Prior to the Closing, the Sellers and VTI shall keep all information regarding Purchaser and the transactions contemplated in this Agreement (the "Purchaser Confidential Information") confidential and limit access to the Purchaser Confidential Information to the Sellers and VTI and their agents and other representatives as necessary to carry out the transactions contemplated by this Agreement. The Sellers and VTI agree that until the Closing, all Purchaser Confidential Information obtained from Purchaser or any representative thereof, shall be held in strict confidence and shall be used for the exclusive purpose of carrying out the transactions contemplated by this Agreement. In the event the transactions contemplated by this Agreement are not consummated, all Purchaser Confidential Information received by the Sellers or VTI from Purchaser and its representatives shall be promptly returned, together with any copies thereof, to Purchaser. The Sellers and VTI shall not disclose in any press release or public filing or to any third person the financial terms of the transactions contemplated by this Agreement, nor shall the Sellers or VTI, in the event the transactions contemplated by this Agreement are not consummated, use any of the Purchaser Confidential Information for any competitive purpose.

5.8 Absence of Indebtedness. Prior to the Closing VTI shall satisfy all of its indebtedness for money borrowed (excluding trade payables and other current liabilities incurred in the ordinary course of business) so that at the Closing VTI shall not be obligated for any such indebtedness for money borrowed.

#### ARTICLE VI COVENANTS OF PURCHASER

6.1 No Violation. Purchaser shall not knowingly take any action which would constitute a misrepresentation or breach of warranty contained in Article IV had such action been taken on or prior to the date of this Agreement.

6.2 Notification. Following the Closing Date, Purchaser shall use its best efforts to promptly notify the Sellers and VTI of any alleged misrepresentations or breaches of warranty or covenant under this Agreement by the Sellers and VTI. Purchaser shall cooperate in good faith to allow the Sellers and VTI to cure any such alleged misrepresentations or breaches; provided, that nothing in this Section 6.2 shall require Purchaser to expend any sum of money or incur any obligation to cure any misrepresentation or breach of warranty or covenant by the Sellers and VTI.

6.3 Confidential Information. Prior to the Closing Date, Purchaser shall keep all information regarding VTI and the transactions contemplated in this Agreement (the "VTI Confidential Information") confidential and limit access to the VTI Confidential Information to Purchaser's agents and other representatives as necessary to carry out the transactions contemplated by this Agreement. Purchaser agrees that until the Closing, the VTI Confidential Information obtained from VTI or the Sellers or any representative thereof, shall be held in strict confidence

and shall be used for the exclusive purpose of carrying out the transactions contemplated by this Agreement. In the event the transactions contemplated by this Agreement are not consummated, all VTI Confidential Information received by Purchaser from VTI or the Sellers and their representatives shall be promptly returned, together with any copies thereof, to VTI or the Sellers. Purchaser shall not disclose in any press release or public filing or to any third person the financial terms of the transactions contemplated by this Agreement unless such disclosures are required by applicable law or the rules of the Nasdaq National Market System, in which case the Purchaser shall permit the other parties an opportunity to review and comment upon such release or announcement, nor shall Purchaser, in the event the transactions contemplated by this Agreement are not consummated, use any of the VTI Confidential Information for any competitive purpose.

#### ARTICLE VII MUTUAL COVENANTS

7.1 Further Assurances. Subject to the terms and conditions of this Agreement, each of the parties hereto will use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions contemplated hereby.

7.2 No Brokers; Expenses. The Sellers and the Purchaser will bear their respective brokers or finders fees incurred in connection with the transactions provided for in this Agreement and other expenses incurred in connection with the preparation, execution and performance of this Agreement and the transactions contemplated hereby, including expenses of agents, counsel and accountants, and the Sellers and VTI will cause VTI not to incur any out-of-pocket expenses in connection with this Agreement which will be due and payable after the Effective Date.

#### ARTICLE VIII CONDITIONS PRECEDENT TO SELLER'S AND VTI'S OBLIGATIONS

All obligations of the Sellers and VTI under this Agreement are subject to the fulfillment, on or before the Closing date, of each of the following conditions:

8.1 Representations and Warranties. The representations and warranties of Purchaser contained in this Agreement or in any other agreement, certificate or document delivered to the Sellers and/or VTI pursuant hereto shall be true both on the Closing Date and the effective date of such Closing as if made on and as of the Closing Date and such effective date.

8.2 Performance of Agreements. Purchaser shall have duly performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it at or before the Closing Date, including, without limitation, the execution and delivery to the Sellers and VTI of each of the documents described in Section 2.4(b).

8.3 Purchaser Authorization. Purchaser shall have delivered to the Sellers and VTI a certificate by Purchaser's corporate secretary in a form satisfactory to the Sellers and VTI to the effect that Purchaser's execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly authorized by Purchaser's board of directors.

#### ARTICLE IX CONDITIONS PRECEDENT TO PURCHASER'S OBLIGATIONS

All obligations of Purchaser under this Agreement are subject to the fulfillment, on or before the Closing Date, except as otherwise provided, of each of the following conditions:

9.1 Representations and Warranties. The representations and warranties of the Sellers and VTI contained in this Agreement (including the Exhibits hereto), or in any other agreement, certificate or document delivered to Purchaser pursuant hereto, shall be true both on the Closing Date and the effective date of such Closing as if made again on and as of the Closing Date and such effective date.

9.2 Performance of Agreements. The Sellers and VTI shall have duly performed and complied with, or caused to be performed and complied with, all agreements and conditions required by this Agreement to be performed or

complied with by the Sellers and/or VTI on or before the Closing Date, including, without limitation, the execution and delivery to Purchaser of each of the documents described in Section 2.4(a).

9.3 Consents and Approvals. The Sellers and VTI shall have delivered to Purchaser all consents, approvals, release of preferential rights to purchase shares of VTI's stock, any required consents or approvals by third parties or governmental authorities, and all other necessary consents and waivers required to consummate the transactions contemplated by this Agreement.

9.4 No Changes. There shall have been no material adverse change since the date hereof in the financial condition, results of operations, business, prospects, assets or properties of VTI.

9.5 Audits. Purchaser shall have completed, to its satisfaction, all legal, operational, and financial investigations, audits, due diligence, and other reviews of VTI and any and all assets and properties of VTI.

9.6 VTI Authorization. The Sellers and VTI shall have delivered to Purchaser a certificate of the corporate secretary of VTI in a form satisfactory to Purchaser to the effect that the execution, delivery and performance of this Agreement by VTI and consummation of the transactions contemplated by this Agreement have been duly authorized by the board of directors of VTI.

#### ARTICLE X MISCELLANEOUS PROVISIONS

10.1 Expenses. Whether or not the transactions contemplated hereby are consummated, the Sellers, VTI and Purchaser each will pay all costs and expenses incurred by them in connection with the negotiation, preparation and execution of this Agreement and the closing of the transactions contemplated hereby.

10.2 Survival of Representations; Indemnification.

(a) Survival. Other than the warranties and representations set forth in Section 3.22 hereof with respect to taxes, which shall remain in effect for the applicable statute of limitations, and the warranties and representations set forth herein in Sections 3.3, 3.5, 3.6, 3.11(a) and 4.1 pertaining to title and authority, which shall remain in effect indefinitely, all other representations, warranties, covenants and agreements made by the parties to this Agreement or pursuant hereto shall survive for a period of eighteen (18) months following the Closing Date; provided, however, all claims made by virtue of such representations, warranties and agreements shall be made under, and subject to, the limitations set forth in this Section 10.2. To preserve any claim for breach of any such representation, warranty or agreement, the party claiming a breach shall be obligated to notify the party claimed to be in breach in writing of any such breach, stating the facts regarding such breach, before termination of the survival period; otherwise such party's claim for breach shall be forever barred.

(b) The Sellers' Agreement to Indemnify.

(i) Indemnification. Subject to the limitations, conditions, and provisions set forth herein, the Sellers each agree, jointly and severally, to indemnify, defend and hold harmless Purchaser from and against all out of pocket funds expended to satisfy all demands, claims, actions, losses, damages, liabilities, costs and expenses asserted against or incurred by Purchaser resulting from a breach of any covenant, agreement, representation or warranty of VTI and/or the Sellers contained in this Agreement (collectively, "Purchaser Damages"). Purchaser Damages shall be calculated after giving effect to any insurance recoveries or tax benefits to be realized by Purchaser for the transaction which gives rise to the Purchaser's claim for indemnity; provided, further, the liability of Sellers hereunder shall be several only, and not joint and several, as to any Seller with respect to whose shares of VTI stock there is claimed any lien, encumbrance, claim, restriction or lack of authority which results in the breach of a representation or warranty by the Sellers under this Agreement,

(ii) Conditions of Indemnification. The obligations and liabilities of the Sellers under this Section 10.2(b) with respect to claims for Purchaser Damages resulting from the assertion of liability by third parties ("Purchaser Claims") shall be subject to the following terms and conditions:

(A) Within 20 days after receiving notice thereof, Purchaser will give the Seller Representative notice of any Purchaser Claims asserted against or incurred by Purchaser. The Seller Representative may undertake the defense thereof by counsel of his own choosing. Purchaser may, by counsel, participate in such proceedings, negotiations or defense at its own expense, but the Seller Representative shall retain control over such litigation. In all such cases, Purchaser will give reasonable assistance to the Seller Representative.

(B) In the event that, within 20 days after notice of any such Purchaser Claim, the Seller Representative fails to notify Purchaser of his intention to defend, Purchaser will have the right to undertake the defense, compromise or to participate in such proceedings, negotiations or defense at any time at its own expense. Purchaser shall not settle any such Purchaser Claim without the consent of the Seller Representative, which consent shall not be unreasonably withheld.

(c) Purchaser's Agreement to Indemnify.

(i) Indemnification. The Purchaser agrees to indemnify, defend and hold harmless Sellers from and against all demands, claims, actions, losses, damages, liabilities, costs and expenses asserted against or incurred by Sellers resulting from the failure of VTI to pay any amount or perform any obligation under any of the Contracts to the extent such payment or obligation accrues after the Closing Date, and/or any of the liabilities as reflected on the Balance Sheet or resulting from a breach of any covenant, agreement, representation or warranty of Purchaser contained in this Agreement (collectively, "Sellers Damages").

(ii) Conditions of Indemnification. The obligations and liabilities of the Purchaser under this Section 10.2(c) with respect to claims for Sellers Damages resulting from the assertion of liability by third parties ("the Sellers Claims") shall be subject to the following terms and conditions:

(A) Within 20 days after receiving notice thereof, the Sellers will give the Purchaser notice of any the Sellers Claims asserted against or incurred by the Sellers. The Purchaser may undertake the defense thereof by counsel of its own choosing. The Sellers may, by counsel, participate in such proceedings, negotiations or defense at their own expense, but the Purchaser shall retain control over such litigation. In all such cases, the Sellers will give reasonable assistance to the Purchaser.

(B) In the event that, within 20 days after notice of any such Sellers Claim, the Purchaser fails to notify the Sellers of its intention to defend, the Sellers will have the right to undertake the defense, compromise or to participate in such proceedings, negotiations or defense at any time at their own expense. The Sellers shall not settle any such Sellers Claim without the consent of the Purchaser, which consent shall not be unreasonably withheld.

(d) Limitations. The Sellers' and the Purchaser's respective indemnification obligations under this Agreement by reason of a breach of a representation or warranty shall not apply to any Purchaser Damages or Sellers' Damages, respectively, which, in the aggregate, are less than \$350,000; provided, however, that Sellers' and Purchaser's respective indemnification obligations shall apply to all Purchaser Damages or Seller Damages, respectively, including all such damages which did not meet the foregoing threshold, if and when the aggregate of all such damages exceed \$350,000, and provided further that Sellers shall not be liable for any Purchaser Damages to the extent that they exceed, in the aggregate, the sum of \$3,500,000. In the absence of intentional fraud, the Indemnification provisions of this Article X shall be the sole and exclusive remedy and procedure for the assertion by either party of any claim or cause of action arising out of or in connection with this Agreement and the transaction contemplated hereby.

10.3 Further Assurances. From time to time after the Closing Date, without further consideration, the parties will execute and deliver, or cause to be executed and delivered, such documents to the other as the other may reasonably request.

10.4 Amendment and Modification. This Agreement may be amended, modified or supplemented only by the written agreement of the parties with respect to any of the terms, conditions or provisions contained herein.

10.5 Waiver of Compliance; Consents. Except as otherwise provided in this Agreement, any failure of any of the parties to comply with any obligation, representation, warranty, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, representation, warranty, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Agreement requires or permits consent by or on behalf of any party hereto, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section.

10.6 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when delivered by hand (including overnight mail service) or by facsimile transmission or three days after deposit in the U.S. mail if mailed by registered or certified mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice, provided that notices of a change of address shall be effective only upon receipt thereof);

If to the Sellers and/or VTI: Scott Almquist, Seller Representative  
1 Spectrum Pointe Drive, Suite 325  
Lake Forest, California 92630  
Fax: (949) 598-8755

If to Purchaser: Jack Henry & Associates, Inc.  
663 Highway 60  
Monett, Missouri 65708  
Attention: Tony Wormington  
Fax: (417) 235-1765

10.7 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, and shall not confer upon any other person except the parties hereto any rights or remedies hereunder. Neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by either party; provided, however, that Purchaser may assign its rights and interests hereunder to a wholly owned subsidiary of Purchaser upon the receipt of the prior written consent of the Sellers.

10.8 Governing Law; Jurisdiction The execution, interpretation and performance of this Agreement shall be governed by the internal laws and judicial decisions of the State of Missouri. In any action or proceeding arising directly or indirectly from this Agreement, the prevailing party shall be entitled to recover its attorney's fees, in addition to other costs of suit.

10.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.10 Interpretation. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement. As used herein, the singular shall include the plural and the plural the singular, and the use of any gender shall be applicable to all genders.

10.11 Entire Agreement. This Agreement, including the Exhibits hereto and the documents delivered pursuant to this Agreement and paragraph 1 of the LOI, embody the entire agreement and understanding of the parties hereto in respect of the subject matter hereof. The Exhibits hereto are an integral part of this Agreement and are incorporated by reference herein. This Agreement supersedes all prior agreements and understandings between the parties with respect to the transactions contemplated hereby.

10.12 Severability. If any provision of this Agreement is held invalid or unenforceable for any reason, such invalidity or unenforceability will not affect the validity of the remaining provisions hereof, which shall

continue in full force and effect.

10.13 Tax Matters. The Seller Representative shall cause to be prepared at VTI's expense all income tax returns of VTI for all taxable periods of VTI ending on or prior to the Closing Date on a basis consistent with the returns filed for the year ended December 31, 2003 and the transactions contemplated by this Agreement, and the Purchaser shall cause VTI to execute, verify and timely and duly file such tax returns in the form so prepared. The Purchaser and the Seller Representative shall cooperate with each other in the conduct of any audit or other proceedings involving liability for taxes of VTI for periods beginning before the Closing Date and each may participate at its own expense, provided that the Seller Representative shall have the right to control the conduct of any such audit or proceeding for which the Seller Representative agrees that any resulting tax is covered by the indemnity provisions of this Agreement. After the Closing Date, the Purchaser, VTI and the Seller shall make available to the other, as reasonably requested, all information, records or documents (to the extent in their possession or control in the case of the Sellers) relating to tax liabilities or potential tax liabilities of VTI and shall preserve all such information, records and documents until the expiration of any applicable statute of limitations, including extensions thereof, or such other period as required by law. Any indemnification payments made to the Seller or VTI or the Purchaser pursuant to this Article X shall constitute an adjustment of the Purchase Price for tax purposes and shall be treated as such by the Purchaser, VTI and the Sellers on their tax returns to the extent permitted by law.

10.14 Appointment of Seller Representative.

- (a) Powers of Attorney. Each Seller irrevocably constitutes and appoints Scott Almquist (the "Seller Representative") as such Seller's true and lawful agent, proxy and attorney-in-fact and agent and authorizes the Representative acting for such Seller and in such Seller's name, place and stead, in any and all capacities to do and perform every act and thing required or permitted to be done in connection with the below described transactions contemplated by this Agreement, as fully to all intents and purposes as such Person might or could do in person, including, without limitation:
- (i) Determine the presence (or absence) of claims for indemnification against the Purchaser pursuant to Section 10.2(c) above;
  - (ii) Deliver all notices required to be delivered by such Seller under this Agreement, including, without limitation, any notice of a claim for which indemnification is sought under Section 10.2 above;
  - (iii) Receive all notices required to be delivered to such Seller under this Agreement, including, without limitation, any notice of a claim for which indemnification is sought under Section 10.2 above;
  - (iv) Take any and all action on behalf of such Seller from time to time as the Representative may deem necessary or desirable to defend, pursue, resolve, and/or settle claims under this Agreement, including, without limitation, indemnification under Section 10.2 above and the determination of amounts under Section 2.2 above;
  - (v) Take the actions contemplated to be taken by the Seller Representative pursuant to Section 10.13 above;
  - (vi) Exercise the right to terminate this Agreement pursuant to Section 2.3 of this Agreement or otherwise; and
  - (vii) Enter into post-closing amendments to this Agreement.
- (b) Replacement of the Seller Representative. Upon the death, disability, or incapacity of the initial Seller Representative appointed pursuant to Section 10.14 (a) above, each Seller acknowledges and agrees that such Representative's executor, guardian, or legal representative, as the case may be, shall (in consultation with Sellers) appoint a replacement reasonably believed by such person as capable of carrying out the duties and performing the obligations of the Seller Representative hereunder within thirty (30) days. In the event that the Seller Representative resigns for any reason, the Representative shall (in consultation with Sellers) select another representative to fill such vacancy. Any substituted representative shall be deemed

the Seller Representative for all purposes of this Agreement and the other Transaction Documents.

- (c) Actions of the Representative. Each Seller agrees that Purchaser shall be entitled to rely on any of the above described actions taken by the Seller Representative, on behalf of Sellers, pursuant to Section 10.14(a) above (each, an "Authorized Action"), and that each Authorized Action shall be binding on each Seller as fully as if such Seller had taken such Authorized Action. Sellers jointly and severally agree to pay, and to indemnify and hold harmless the Purchaser from and against any losses which they may suffer, sustain, or become subject to, as the result of any claim by any Person that an Authorized Action is not binding on, or enforceable against Sellers.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first above written.

VTI  
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VERINEX TECHNOLOGIES, INC.

By: -----  
Scott Almquist, President

SELLERS  
-----  
ALMQUIST FAMILY TRUST

By: -----  
Scott Almquist, Trustee

-----  
William S. Watson

-----  
Traci Jo Watson

-----  
Aaron Watson

-----  
Vanessa Watson

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Sean Walwick

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Cynthia Walwick

PURCHASER  
-----  
JACK HENRY & ASSOCIATES, INC.

By: -----  
John F. Prim, Chief Executive Officer

CERTIFICATION

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I, John F.Prim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Jack Henry & Associates, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information ; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 9, 2004

/s/ John F. Prim

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John F. Prim  
Chief Executive Officer



## CERTIFICATION

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I, Kevin D. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Jack Henry & Associates, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information ; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 9, 2004

/s/ Kevin D. Williams

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Kevin D. Williams  
Chief Financial Officer

Written Statement of the Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Chief Executive Officer of Jack Henry & Associates, Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2004

\*/s/ John F. Prim

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John F. Prim  
Chief Executive Officer

\* A signed original of this written statement required by Section 906 has been provided to Jack Henry & Associates, Inc. and will be retained by Jack Henry & Associates, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Written Statement of the Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, I, the undersigned Chief Financial Officer of Jack Henry & Associates, Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2004

\*/s/ Kevin D. Williams

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Kevin D. Williams  
Chief Financial Officer

\* A signed original of this written statement required by Section 906 has been provided to Jack Henry & Associates, Inc. and will be retained by Jack Henry & Associates, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.