

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended December 31, 1998

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 principal 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 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.

Class	Outstanding at January 31, 1999
Common Stock, \$.01 par value	19,972,745

JACK HENRY & ASSOCIATES, INC.

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Part I. Financial Information
Item 1. Financial Statements

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

	December 31, 1998 (Unaudited)	June 30, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,684	\$ 24,683
Investments	1,509	3,217
Trade receivables	27,610	42,615
Income taxes receivable	1,477	-
Prepaid expenses and other	10,320	8,174
Total current assets	\$ 75,600	\$ 78,689
Property and equipment, net	\$ 43,951	\$ 30,918
Other assets:		
Intangible assets, net of amortization	\$ 22,115	\$ 15,272
Computer software	3,358	3,616
Other non-current assets	3,755	3,683
Total other assets	\$ 29,228	\$ 22,571
Total assets	\$148,779	\$132,178

	December 31, 1998 (Unaudited)	June 30, 1998
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,944	\$ 8,119
Accrued expenses	6,912	5,634
Accrued income taxes payable	-	136
Deferred revenue	35,071	33,151
Total current liabilities	\$ 47,297	\$ 47,040
Deferred income taxes	2,526	2,526
Total liabilities	\$ 50,453	\$ 49,566

Stockholders' equity:
Preferred stock - \$1.00 par value;
500,000 shares authorized;
none issued - -
Common stock - \$0.01 par value;

50,000,000 shares authorized;		
19,963,596 outstanding @ 12/31/98		
19,777,458 outstanding @ 06/30/98	\$ 200	\$ 198
Less Treasury Stock	(6)	-
Additional paid-in capital	28,738	26,206
Retained earnings	69,394	56,208
Total stockholders' equity	\$ 98,326	\$ 82,612
Total liabilities and stockholders' equity	\$148,779	\$132,178

The accompanying notes are an integral part of these condensed consolidated financial statements.

JACK HENRY & ASSOCIATES, INC.
CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(Unaudited)
(In Thousands, Except Per Share Data)

		Quarter Ended December 31,	Six Months Ended December 31,	
	1998	1997	1998	1997
Revenues:				
Software licensing & installation	\$13,507	\$ 9,322	\$28,302	\$17,443
Maintenance/support & service	16,763	11,191	31,112	21,916
Hardware sales & commissions	17,059	14,864	36,601	21,956
Total revenues	\$47,329	\$35,377	\$96,015	\$61,315
Cost of sales:				
Cost of hardware	11,740	9,901	25,981	14,569
Cost of services	13,698	9,615	25,712	17,714
Total cost of sales	\$25,438	\$19,516	\$51,693	\$32,283
Gross profit	\$21,891	\$15,861	\$44,322	\$29,032
	46%	45%	46%	47%
Operating expenses:				
Selling and marketing	3,842	3,741	7,914	6,715
Research and development	1,512	1,300	3,032	2,494
General and administrative	5,584	2,536	8,695	4,755
Total operating expenses	\$10,938	\$ 7,577	\$19,641	\$13,964
Operating income	\$10,953	\$ 8,284	\$24,681	\$15,068
Other income:				
Interest income	510	325	977	635
Other, net	142	91	174	196
Total other income	\$ 652	\$ 416	\$ 1,151	\$ 831
Income before income taxes	\$11,605	\$ 8,700	\$25,832	\$15,899
Provision for income taxes	4,485	3,191	9,942	5,533
Income from continuing operations	\$ 7,120	\$ 5,509	\$15,890	\$10,366
Income (loss) from discontinued operations	(249)	54	(227)	(207)
Net income	\$ 6,871	\$ 5,563	\$15,663	\$10,159
Diluted earnings per share:				
Income from continuing operations	\$.34	\$.27	\$.75	\$.51
Income (loss) from discontinued operations	(.01)	-	(.01)	(.01)
Net income	\$.33	\$.27	\$.74	\$.50
Diluted weighted average shares outstanding	21,180	20,437	21,090	20,388
Basic earnings per share:				
Income from continuing operations	\$.36	\$.28	\$.80	\$.53
Income (loss) from discontinued operations	(.01)	-	(.01)	(.01)
Net income	\$.35	\$.28	\$.79	\$.52
Basic weighted average shares outstanding	19,932	19,566	19,872	19,522

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Six Months Ended December 31,	
	1998	1997
Cash flows - operating activities:		
Cash received from customers	\$113,340	\$62,641
Cash paid to suppliers and employees	(70,093)	(43,533)
Interest and dividends received, net	1,144	692
Income taxes paid, net	(12,107)	(2,772)
Other, net	(84)	(6)
Net cash flow provided by operating activities	\$ 32,200	\$17,022
Cash flows from discontinued operations	(264)	(522)
Cash flows from investing activities:		
Proceeds on sale of property & equipment	\$ 5	\$ 56
Capital expenditures	(14,703)	(3,512)
Short-term investment activity, net	1,600	2,381
Computer software development	(183)	(63)
Acquisition costs, net	(7,835)	(842)
Net cash used in investing activities	\$(21,116)	\$(1,980)
Cash flows from financing activities:		
Proceeds from issuance of common stock upon exercise of stock options	\$ 2,226	\$ 285
Proceeds from sale of common stock	134	272
Dividends paid	(2,477)	(2,066)
Principal payments on notes payable	(696)	(139)
Purchase of treasury stock	(6)	(387)
Net cash used in financing activities	\$ (819)	\$(2,035)
Net increase in cash and cash equivalents	\$10,001	\$12,485
Cash and cash equivalents at beginning of period	24,683	11,108
Cash and cash equivalents at end of period	\$ 34,684	\$23,593

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Description of the Company - Jack Henry & Associates, Inc. ("JHA" or the "Company") is a computer software company which has developed several banking software systems. It markets those systems to financial institutions throughout the United States along with the computer equipment (hardware) and provides the conversion and software services necessary for a financial institution to install a JHA software system. It also provides continuing maintenance and support services to customers using the system. All of these related activities are considered a single business segment.

Consolidation - The consolidated financial statements include the accounts of JHA and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Other Significant Accounting Policies - The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements included in its Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended June 30, 1998.

2. Interim Financial Statements

The accompanying condensed financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and in accordance with generally accepted accounting principles applicable to interim financial statements, and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Company for the year ended June 30, 1998, which are included in its Form 10-K.

In the opinion of management of the Company, the accompanying condensed financial statements reflect all adjustments necessary (consisting solely of normal recurring adjustments) to present fairly the financial position of the Company as of December 31, 1998, and the results of its operations and its cash flows for the quarter and six month periods then ended.

The results of operations for the periods ended December 31, 1998, are not necessarily indicative of the results to be expected for the entire year.

3. Additional Interim Footnote Information

The following additional information is provided to update the notes to the Company's annual financial statements for developments during the quarter ended December 31, 1998:

Acquisition of Peerless Group, Inc. - December 16, 1998: JHA acquired all the outstanding shares of Peerless Group, Inc. (Peerless), for approximately 827,000 shares of Company stock. Peerless, a wholly owned subsidiary, was a publicly owned company that installs and supports integrated information systems for community banks and credit unions throughout the United States. This acquisition was accounted for as a pooling-of-interests and all prior periods have been restated to reflect the acquisition as if it had occurred at the beginning of the period reported.

Acquisition of Digital Data Services, Inc. (DDSI) - November 25, 1998: DDSI, acquired for \$2.75 million in cash, is a provider of a variety of service bureau options to community banks, primarily in the state of Florida. Systems are AS/400 based and are already using the JKHY core application system. This acquisition was accounted for as a purchase and DDSI's results of operations from the date of acquisition have been included in the Company's results of operations.

4. Income Per Share Information

Earnings per common share are computed by dividing income by the basic and diluted weighted average number of shares of common stock and dilutive common stock equivalents outstanding for the quarter and six month periods ended December 31, 1998 and 1997. The difference between basic and diluted weighted average shares outstanding is due to employee stock options.

Item 2. - Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Background and Overview

The Company is a leading provider of integrated computer systems and ATM networking products that perform data processing (available for in-house or service bureau installations) for banks and credit unions. The Company was founded in 1976. Its proprietary applications software, which operates on IBM computers, is offered under two systems: CIF 20/20, typically for banks with

less than \$300 million in assets, and the Silverlake System , for banks with assets up to \$10 billion. JHA frequently sells hardware with its software products. It also provides customer support and related services. The Company's software systems and products have been installed at over 1800 banks and credit unions.

Year 2000

The Company has established a Year 2000 (Y2K) Committee. This Committee has prepared a documented, systematic approach (the Y2K Plan) to review all products and internal systems for Y2K compliance. The Company's Board of Directors have reviewed and approved the Plan as required by the banking regulators of all service bureau providers. The Company believes the products it currently sells are Y2K compliant and that the majority, if not all, of its internal systems will be Y2K compliant by March 31, 1999. The estimated cost of the above efforts is not reasonably determinable at the current time and is not expected to be material to the Company's financials.

A detailed discussion of the major components of the results of operations for the quarter and the six months ended December 31, 1998, as compared to the same periods in the previous year follows.

Revenues

Revenues increased 34% to \$47,329,000 in the quarter ended December 31, 1998. The Company's non-hardware products and services (higher margin sales) increased 48% over last year.

Six month revenues this year were \$96,015,000, up 57% over the last year's corresponding period. Software licensing and installation increased 62%. Maintenance, support and service revenues increased 42%. Hardware sales were up 67% over last year.

The backlog of sales at December 31, 1998, was \$80,206,000. Backlog at January 31, 1999 was \$79,466,000.

Cost of Sales

The 30% increase in cost of sales for the second quarter of FY '99 is relatively consistent with the increase in revenues. A portion of the increase results from the increase in hardware revenues and the related increase in cost of hardware sales. Cost of services increased 42% primarily due to growth and future growth expected in the Company's core business, slightly less than the 48% increase in non-hardware revenues.

Cost of sales increased 60% for the first six months of fiscal '99, relatively

- 1 CIF 20/20 is a trademark of Jack Henry & Associates, Inc.
- 2 Silverlake System is a registered trademark of Jack Henry & Associates, Inc.

consistent with the 57% increase in revenues. Cost of hardware increased 78%, slightly more than the 67% increase in hardware revenue. Cost of services increased 45% compared to a 51% increase in non-hardware revenues.

Gross Profit

Gross profit increased to \$21,891,000 in the second quarter ended December 31, 1998, a 38% increase over last year. The gross margin percentage was 46% of sales compared to 45% last year.

The six month gross profit this year was up 53% at \$44,322,000. The gross margin percentage for the first six months was 46%, similar to last year's rate of 47%.

Operating Expenses

Total operating expenses increased 44% in the quarter compared to last year's period. This is slightly more than the gross profit increase of 38%. Selling expenses increased 3% while research and development expenses increased 16%. General and administrative expenses increased by 40% without one time transaction costs of \$2,040,000 relating to the acquisition of Peerless.

The \$19,641,000 in the first six months of fiscal '99 for operating expenses

was a 41% increase. This is relatively consistent with the 53% increase in gross profits.

Other Income and Expense

Other income for the quarter ended December 31, 1998, was up 57% when compared to the same period last year. This results primarily from increased interest income because the Company had more cash invested during the period. The year-to-date 39% increase is due to the same reasons.

Net Income

Net income from continuing operations for the second quarter was \$7,120,000, or \$.34 per diluted share, an increase of 29%, compared to \$5,509,000, or \$.27 per diluted share in the same period last year.

Net income from continuing operations for the six months ended December 31, 1998 was \$15,890,000, or \$.80 per share (up 53%), compared to \$10,366,000, or \$.51 per share during the same period last year.

FINANCIAL CONDITION

Liquidity

The Company's cash and cash equivalents and investments increased to \$36,193,000 at December 31, 1998, up from \$27,900,000 at June 30, 1998.

JHA has available credit lines totaling \$5,000,000, although the Company expects their use to be minimal during FY '99. The Company currently has no short-term or long-term debt obligations.

Capital Requirements and Resources

JHA generally uses existing resources and funds generated from operations to meet its capital requirements. Capital expenditures totaling \$14,703,000 for the six months ended December 31, 1998, were made for expansion of its facilities and additional equipment. These were funded from cash generated by operations. The consolidated capital expenditures of JHA could exceed \$18,000,000 for FY '99.

The Company paid a \$.065 per share cash dividend on December 10, 1998 to stockholders of record November 19, 1998 which was funded from working capital. In addition, the Company's Board of Directors, subsequent to December 31, 1998, declared a quarterly cash dividend of \$.08 per share on its common stock payable March 10, 1999 to stockholders of record on February 17, 1999. This will be funded out of working capital.

CONCLUSION

JHA's results of operations and its financial position continued to be quite favorable during the quarter ended December 31, 1998. This reflects the continuing attitude of cooperation and commitment by each employee, management's ongoing cost control efforts and the Company's commitment to deliver top quality products and services to the markets it serves.

PART II. OTHER INFORMATION

Item 5. Other Information

On December 16, 1998, the Company issued 826,931 shares of fully paid and non-assessable JHA common stock, valued at approximately \$39.4 million to the shareholders of Peerless, as total consideration for a transaction whereby all of the outstanding capital stock of Peerless was acquired by the Company. These shares of the Company's common stock were issued pursuant to a registration statement under the Securities Act of 1933.

Item 6. Exhibits and Reports on Form 8-K

The Company filed one current report on Form 8-K on December 17, 1998, reporting the completion of the Company's acquisition of Peerless, and describing certain details of the transaction.

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 behalf by the undersigned thereunto duly authorized.

JACK HENRY & ASSOCIATES, INC.

Date: February 12, 1999

/s/ Michael E. Henry
Michael E. Henry
Chairman of the Board and
Chief Executive Officer

Date: February 12, 1999

/s/ Terry W. Thompson
Terry W. Thompson
Vice President and
Chief Financial Officer

3-MOS

JUN-30-1999	DEC-31-1998
	34684
	1509
	27610
	0
	0
75600	59855
15904	
148779	
47297	0
0	0
	200
	98126
148779	47329
47329	25438
	10938
(652)	0
0	0
11605	
4485	
7120	0
(249)	0
0	0
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	.34
	.33